

APPEAL OF  
THE

# United States Court of Appeals

(OF THE NINTH CIRCUIT)

THE UNITED STATES OF AMERICA, Plaintiff,

*vs.*

THE CALIFORNIA PACIFIC LUMBER CORPORATION, Defendant.

*et al.*

United States Court of Appeals for the  
Ninth Circuit, San Francisco, California

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES

FOR THE DISTRICT OF COLUMBIA

IN RE: THE ESTATE OF

JOHN W. STANLEY, JR.

DECEASED, and the ESTATE OF

JOHN W. STANLEY, JR., DECEASED

FILED

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No. 16141  
IN THE  
**United States Court of Appeals**  
FOR THE NINTH CIRCUIT

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THE COLEMAN COMPANY, INC., a corporation,  
*Appellant,*  
*vs.*

HOLLY MANUFACTURING COMPANY, a corporation,  
*Appellee.*

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Opening Brief of Defendant-Appellant The  
Coleman Company, Inc.

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**Explanation of References to Record.**

There are two separate Transcripts of Record, of confusingly similar appearance. One is numbered 14711 and is designated as being in three volumes. It relates to an original trial of the issue of patent infringement. One of the three volumes consists of exhibits. It is already before this Court as part of the record on an earlier appeal. The parties have stipulated that the exhibits may be considered in their original form, and the third volume has not been reproduced.

The second record is the present one, numbered 16141. It consists of five volumes and relates to all proceedings since the original trial, including a contempt hearing, a trial of an accounting issue before a Special Master, and final proceedings before the Trial Court.

References to the original record appear below as "Orig. R." and to the subsequent record as "R."

References in this brief to the exhibits specify the proceedings in which they were received.

### Jurisdictional Statement.

This is an appeal from a final judgment of \$2,508,-642.73 in a patent infringement action arising under the patent laws of the United States (Title 35, U. S. C.). The judgment appealed from was rendered on June 30, 1958, by Judge Wm. Mathes of the United States District Court, Southern District of California, Central Division.

The case was before this Court previously (*Coleman Co. v. Holly Manufacturing Co.*, 233 F. 2d 71) when an interlocutory decree adjudging infringement was affirmed. Subsequently the damage issue was tried below, and the present appeal for the first time seeks a review of the damages assessed against defendant-appellant Coleman.

The judgment of June 30, 1958, also made final an interlocutory decision that held defendant-appellant in contempt of the injunction which was entered by the trial court following the previous appeal. A review of the finding of contempt is also sought. No review of the original finding of validity or infringement is sought or expected.

### Statement of the Case.

A full statement of all relevant facts, with complete references to the supporting record, is contained in the following sections of this brief in connection with the separate legal issues to which they pertain. In order to avoid needless repetition and, at the same time, to afford this Court the background necessary for consideration of the legal propositions hereinafter urged, at this place we present merely a brief summary of the basic facts.

The suit at bar is one seeking damages for patent infringement, instituted by plaintiff-appellant Holly Manufacturing Company ("Holly") against defendant-appellant The Coleman Company, Inc. ("Coleman"). Holly's patent

(Hollingsworth Patent No. 2,602,441) relates to a kind of room heating device known as a gas wall heater. This type of heater is installed in the wall of a room between the studs, and contains a gas burner for supplying heat. In the operation of such a device, air is drawn from the room, heated by the device and then returned to the room for heating purposes. The gas wall heater industry was well established long prior to the patent in suit, such heaters being manufactured and sold by many different companies [Orig. R. 542].

Prior to the Holly heater, most gas wall heaters utilized a single heating chamber. Some, however, such as the "Royal Jet" heater [R. 1596], had two heating chambers, one above the other, the lower chamber commonly being referred to as the primary heater, and the upper chamber being referred to as the secondary heater or "economizer." The primary heater surrounds the burner and receives its heat therefrom, while the economizer surrounds the flue and is heated by the hot gases as they are discharged through the flue. The Holly heater includes both a primary heater and an economizer arranged in such a way that the economizer is supplied with air from the *wall spaces* around the back and sides of the primary heater. This particular arrangement—with the economizer receiving its air from the lower wall spaces surrounding the primary heater—had not previously been employed in gas wall heaters having economizers (such as the Royal Jet heater), nor had it been used in other heating devices, such as fireplaces, which involved two heating chambers.

Holly originally attempted to obtain a patent covering broadly any combination in a gas wall heater of a primary heater with an economizer. This broad claim, however, was rejected by the Patent Office on the ground that there was no invention in merely adding an economizer to a gas wall heater. All claims of the Holly patent application were thereupon restricted to the specific combination de-

veloped by the Holly engineers, namely, *a combination wherein the economizer was designed to receive its air from the spaces within the wall but outside of and surrounding the lower heater* (Part III(4), below).

In the operation of the Holly device, air is taken in near the floor level, *rises through the wall spaces surrounding the lower heater*, enters the secondary heater or economizer, and is then returned to the room (Part III (4) (5) (8)). As with any secondary heater or economizer, the air passing into and through the economizer absorbs heat from the flue, and this warmed air is then utilized for room heating purposes, thereby “economizing” heat. The use in Holly’s economizer of lower wall space air, as described in Holly’s patent, is claimed (and has now been adjudicated herein) to provide certain additional advantages, principally a further improvement in efficiency and cooler walls around the economizer.

Coleman’s heater, which likewise employed an economizer, contained a large grill or opening *above* the lower heater through which air was introduced into its economizer directly from the room—air, that is, which had *not* first risen through the wall spaces surrounding its lower heater in accordance with Holly’s patented combination. Coleman’s combination, utilizing this noninfringing room air, was constructed in accordance with its own Giwosky patent No. 2,767,702 [Accounting Ex. B; reference No. 20 on this exhibit shows the grill; Part III (8), below]. Coleman’s lower heater and upper economizer were not, however, hermetically sealed where they joined one another. By virtue of the inherent characteristics of air, therefore, a certain amount of air from the wall spaces surrounding the lower heater (“infringing air”) did seep into Coleman’s economizer.

The initial trial of this case involved two issues, namely, whether or not Holly’s patent was valid, and if so, whether Coleman’s heater infringed it. Upon the latter issue, the

controversy necessarily resolved itself to the question of whether or not Coleman's economizer received a sufficient amount of lower wall space or "infringing" air to affect its operation, Holly having conceded that if Coleman's economizer utilized no lower space air,\* or so insubstantial an amount of such air that its operation was not affected thereby, it could not be adjudged guilty of infringement.\*\* At the original trial there was a direct evidentiary conflict on this point, Coleman's experts insisting that only approximately 4 per cent of its economizer air originated fortuitously from the lower wall space, whereas the testimony of Holly's expert placed the quantity of infringing air in Coleman's economizers as from 23 to 57½ per cent [Orig. R. 226-227; Summary of Argument (a), below]. The Trial Court accepted the calculations of Holly's expert, and, after first sustaining Holly's patent as valid, held that Coleman's heater infringed the patented combination. Upon the former appeal of the case, this Court, while recognizing the existence of conflicting evidence on this issue, declined to disturb the Trial Court's finding, sustained the Trial Court's judgment in its entirety, and remanded the cause for trial of the accounting issue.

When this Court's mandate issued, the Trial Court's original injunctive decree became final. Coleman then had on hand a small stock of completed heaters which could not be sold in their then condition without violating the

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\*During the same period here involved, Coleman manufactured, used and sold wall heaters identical to its "infringing" heaters except that they were equipped with a fan or "blower" at the bottom of the economizer, whereby room air was drawn into the economizer *from the top of the room*, sucked down through the economizer, and discharged into the room from the economizer's lower end. It has never been contended by Holly that these blower-equipped heaters—although employing the standard heater-economizer combination—infringed its patent [R. 1616-1620, 1757-1758].

\*\*See R. 710.



injunction. In order to be permitted to dispose of its stock of old heaters (preparatory to introducing its newly designed line of non-infringing wall heaters), Coleman constructed a metal air diverter or "chute" for attachment to its remaining old heaters, which chute was designed to eliminate leakage of infringing air into its economizer (Part IV, below). Shortly after Coleman commenced disposing of its stock of existing heaters provided with the newly designed chute, Holly caused summary contempt process to be served upon Coleman. At the contempt hearing, the uncontradicted evidence established that with the "chute" attached Coleman's economizer received a maximum of 1.3% of its air from the lower wall space—as contrasted with the 23% to 57½% figure upon which the original infringement decree was based. Although Holly expressly conceded that unless sufficient infringing air entered Coleman's economizer to affect its operation the principle *de minimis* applied, and although no evidence was introduced that operation could be affected by a mere 1.3% of infringing air, the Trial Court held Coleman guilty of contempt (Part IV, below).

Thereafter the accounting trial was held before United States Commissioner Theodore Hocke, acting as Special Master. Following a twelve day trial during which the Special Master saw and heard the witnesses, he made complete findings. These findings, however, were rejected almost in their entirety by the Trial Court which disregarded the master's recommendations and rendered judgment against Coleman, upon a completely different basis, for \$2,508,642.72 as damages, attorney's fees, and costs. This was more than three times the amount of damages recommended by Master. *Inter alia*, although the Special Master expressly found that Coleman had acted in good faith and should not be subjected to punitive damages for patent infringement, the Trial Court found upon the same evidence that Coleman was guilty of bad faith,

and awarded penal damages, including attorney's fees, exceeding a half million dollars. This finding was contrary to the admission of Holly's only witness on the good faith issue (Part III(5), below).

The questions involved, each being raised by a consideration of the whole evidence on appeal from the final judgment, are:

1. Whether the evidence supports the award of damages.
2. Whether the evidence supports the award of exemplary damages and attorney's fees.
3. Whether the evidence supports the judgment of contempt.
4. Whether the record justifies entry of a lawful judgment upon direction of this Court.

### Specification of Errors.

Appellant designates the following errors:

1. The evidence does not support the award of purported lost profits, or any award except of reasonable royalty, for the reason that appellee failed to prove lost profits or any actual damage, and the evidence does not support the underlying Findings IV, V, VIII, X, XI, and XIII.
2. The Court erred in equating appellee's alleged lost profits and damages with appellant's sales as in Finding X.
3. The evidence does not support Finding XXII that appellee sustained damages of \$280,000, or \$483,553.93, or any damage on account of forced price reductions, increased selling expenses, or curtailed market expansion, and does not support the award of damages therefor.
4. The evidence does not support the finding that appellant acted in bad faith as found in Findings XXIII, XXIV, and XXVI, and thus does not support the award of penal damages and attorneys' fees.

5. The evidence does not support the findings that appellant was guilty of contempt as found in Findings XXIII and XXVIII, or the award of penal damages, attorneys' fees, and expenses in contempt as in and upon Findings XXV and XXVII.

6. The Court erred in computing the contempt damages because paragraph 5 of the judgment awards \$20,-265.98 in excess of the supposedly supporting Finding XXV.

7. The Court erred in not rendering judgment in accordance with the undisputed evidence establishing the amount of a nominal or reasonable royalty. It also erred, however, in Finding XXIX wherein the finding of the Special Master that 6 per cent of sales was a reasonable royalty, was adopted by reference. Appellant excepted to this finding as being unsupported by the evidence (Fourth Exception). The Court adopted it by reference but did not base the judgment thereon.

To insure compliance with Rule 18, paragraph 2(d), appellant makes the following supplemental specifications:

a. The Trial Court erred in sustaining Holly's objection to the Special Master's finding that Coleman acted in good faith and that no punitive damages should be awarded.

b. The Trial Court erred in not specifically holding, as requested in Defendant's First Exception, that the Special Master acted contrary to law when he awarded Coleman's profits to Holly while, at the same time, holding that actual damages could not be ascertained.

c. The Trial Court erred in failing to hold, as requested in Defendant's Third Exception, that the alleged damages due to reduced profit margins and lost sales were not susceptible to numerical computation.



d. The Trial Court erred in sustaining Holly's objection to the Special Master's finding that the evidence did not permit the conclusion that Holly would have made Coleman's sales but for the infringement.

e. The Trial Court erred in assuming, without evidentiary basis therefor, that the Special Master's Finding XI respecting the sales features of the Holly and Coleman heaters were related to Holly's patented feature and that the Master's finding in this regard provided any basis for an inference that Holly would have made Coleman's sales but for the infringement.

### Summary of Argument.

On the previous appeal this Court reviewed the question of whether the Coleman heater infringed Holly's patent, but declined to disturb the finding of the Trial Court which resolved the conflict of evidence on the point in favor of Holly. In referring to Coleman's position that the economizers of its heaters were supplied with air directly from the room rather than from the wall spaces surrounding the lower heater, this Court stated (233 F. 2d 71, 83):

"It [Coleman] admits that the amount of air that enters 'either the 4-foot or 3-foot economizer from the space around the lower heater is a matter of direct dispute.' The lower court quite evidently refused to accept the version of appellant on this particular fact question and we find no reason to quarrel with this decision."

#### a. REVELATION THAT ORIGINAL EVIDENCE BEFORE THIS COURT WAS MISTAKEN AND INCORRECT.

We believe the Court will find this case to be one of the most remarkable, in many respects, that has come before it.

Particularly because of the finding that Coleman acted in bad faith, which directly resulted in the huge award of

penal damages—and which probably accounts for most of the other findings—it is important to note that the original evidence before the Court at the time infringement was found is now revealed to have been the product of mistake and as being grossly contrary to the facts (Part III(2), below). While it is unfortunately too late to assail the original evidence insofar as it establishes the absence of infringement, it is necessary to appraise it on the accounting issues and it first became material for that purpose in the present proceedings.

The key feature of Holly's patented heater, without which Holly concedes that there would have been no infringement by Coleman, is that all of the air utilized in the upper chamber of Holly's heater, known as an economizer, is drawn from the wall spaces behind and at the sides of the lower part of the heater and thus from outside the heater. It is air that has followed this path into the economizer which is infringing air. It is conceded by Holly that there would have been no infringement of its patent if such air did not enter the Coleman economizer [R. 1182-1183, 1191, 710]. It was further conceded by Holly that if the amount of air entering the Coleman's economizer from the lower wall spaces was so small as not to affect the operation of the heater the rule *de minimis* would apply [R. 710].

At the original trial of this action, resulting in the finding of infringement, Coleman's evidence was that only about 4% of the air in the economizer came from the infringing source [Orig. R. 395, 406], and that it made no contribution to the efficiency of the heater [Orig. R. 406], but it was rejected by the Trial Court. Holly's evidence at that time, given by a Mr. Landsberg, was that a very large quantity of the so-called infringing air entered the economizers of the Coleman heaters. This supposed volume of infringing air was calculated by him as being between 23% and 57.5% of all the air in the

Coleman economizers, depending upon the particular type of heater being tested (Part III(2), below).

Holly's expert witness reached this mistaken conclusion by measuring the air emitted from Coleman's economizers and deducting therefrom the only source of non-infringing air which was then known to him. It was his erroneous assumption that there were only *two* sources of air into Coleman's economizers, one the infringing source and the other from the outside atmosphere of the room directly into the economizer (Part III(2), below), which assumption was not at that time conclusively demonstrated to be incorrect by the expert then representing Coleman. It was this error by Holly's expert which caused the extreme variation of his testimony from that given at all times by Coleman's witnesses. It happens that the Trial Court originally accepted Holly's mistaken evidence and predicated its finding of infringement thereon.

It is now a demonstrated and uncontradicted fact that there was another, large, and previously overlooked source of *non-infringing* air into the Coleman economizers, inside the heater. This revelation obviously invalidates all of the computations and deductions of Holly's expert at the original trial, and the latter has now frankly admitted so as a witness herein (Part III(2), below).

The actual amount of infringing air entering Coleman's economizers did not exceed 3.1% of the total air in them [R. 1592-1594, 1749-1751], was a mere incidental leakage, and did not affect the operation of Coleman's heaters in any respect (Part III(3), below), which is what Coleman has always contended.

None of these facts has been disputed in the *present* proceedings.

In this connection the Court will have in mind the fact that Holly is itself in the heating industry, with its own engineers, present in court, and with its own testing

facilities, having possession of Coleman heaters for testing, and that it necessarily would have challenged any error on such vital subjects. It must therefore be assumed that disputable facts which are part of the fabric of the case would have been disputed, so that the absence of dispute is of more than merely legal significance.

The finality of the original decree adjudging Coleman in infringement is not questioned. This background of the case is vital, however, because of its bearing upon the issue of good faith, on the issue of the value of a reasonable royalty, and more generally upon the equitable position of Coleman in this case.

#### b. BASIS OF THE JUDGMENT.

Under the present patent damage statute there are two approaches to the damage issue: (1) proof of actual damages, if any, or (2) proof of the value of a reasonable royalty: *Faulkner v. Gibbs*, 199 F. 2d 635 (9th Cir., 1952).

Holly chose to try the issue solely upon a claim of actual damage and offered no evidence as to reasonable royalty. All evidence on that subject was offered by Coleman and was not disputed (Part V, below).

The basic finding of the Trial Court—directly opposite to that of the Special Master—was that Holly would have made *all* of Coleman's sales had it not been for the infringement, and that Holly's sales would accordingly have been increased by \$7,635,062.00 but for the infringement (Part I, below). To this gross amount of Coleman's sales the Court applied an unsupported estimate that Holly's profits on its patented wall heaters were 19% of its sales, and made a basic award of \$1,450,661.78. Holly did not support this 19% figure with any accounting records, or with any other records (Part I(3), below).

To this figure, representing Holly's assumed profits on all of Coleman's sales, the Court added the sum of \$483,553.93, being an additional 33⅓% "to provide full compensation" for the supposed actual damages.

(These awards, totaling \$1,934,215.71, were made without proof of a *single* lost sale.)

To the basic figure also, upon a finding of bad faith which was opposed to all of the evidence on that issue (the Special Master who saw and heard the witnesses found that there was *good* faith), the Trial Court added another 25%, or \$362,665.45, as punitive damages.

Upon the same finding of bad faith the Court awarded \$130,000.00 as general attorneys' fees, and an additional sum equal to twice Coleman's profits on sales made after finality of the original decree, or \$69,483.38. The Court also awarded \$9,269.77 as attorneys' fees and expenses in connection with the contempt proceeding.

c. HOLLY'S DAMAGE CANNOT BE EQUATED WITH COLEMAN'S SALES ON THE FACTS OF THIS CASE.

For several reasons this is not a case in which the patent owner's loss, if any, can be equated with the infringer's sales. It is conceded that this may be done when a patent owner can show that he would have made the infringer's sales had the latter not done so. But to make such proof the patent owner has the burden of showing that there is a special need or demand for his product which can be satisfied only by his product and the infringer's: *Power Specialty Co. v. Connecticut Light & Power Co.*, 80 F. 2d 874 (2nd Cir., 1936). There is no presumption to this effect, but strict proof is required (Part I, below).

No attempt was made to show the existence of any demand among house builders or the general public for Holly's particular type of wall heater as distinguished



from wall heaters manufactured by strangers to this action. Thus the judgment, which is based upon the unsupported assumption that Holly would have made Coleman's sales but for the infringement, is without foundation or support. The Special Master found that Holly would *not* have made all of Coleman's sales (although it would probably have made some indeterminate portion of them) and computed damages upon a different basis [Part I, below; Report of Special Master, R. 52-53].

The closest approach made by Holly to proof of any lost sales was evidence of its percentages of the national wall heater market before, during and after the infringement. Even disregarding all of the many factors which would cause fluctuations in such matters, and even assuming that Coleman's infringing competition was alone responsible, these figures conclusively refute the Trial Court's basic assumption that Coleman's competition prevented Holly from making all or even substantially all of the former's sales. During the whole period of infringement Coleman maintained approximately 11% of the national market [R. 1625, 1630; Holly made a graph of its interpretation of the record showing the comparable figure of approximately 9%, R. 322]. Of this, approximately 9% represented sales of the infringing heaters [Holly's graph, R. 322]. It will be seen that at no time did Holly suffer a comparable reduction of sales as compared either with its pre-infringement volume or its post-infringement volume (Part I, below).

Holly's percentage of the national market according to its own figures was 19.1% in 1951 before Coleman manufactured the infringing heater. After Coleman stopped manufacturing that heater Holly's percentage of the national market rose to 20%, or an increase of less than 1% (viz. 0.9%). In the years between, when Coleman was selling the infringing heater, Holly's percentages of the national market were: 1952-18.8%; 1953-14.6%;

1954-17.5%; 1955-17.7%; 1956-17.7%<sup>1</sup> [Orig. R. 542; Accounting Ex. 47].

Thus the fluctuations and reductions of Holly's share of the national market, compared with its *pre*-infringement share (19.1%), were: .3%, 4.5%, 1.6%, 1.4%, 1.4%. Compared with its *post*-infringement share of the national market (20%) [Accounting Ex. 47], Holly's hypothetical losses from Coleman's competition, disregarding all other factors, were: 1.2%, 5.4%, 2.5%, 2.3%, 2.3%.

Holly's average loss on this hypothesis was 1.84% of the national market based on its *pre*-infringement share, and 2.74% based on its *post*-infringement share.

Thus, in awarding Holly Coleman's share of the national market based on sales of infringing heaters only (and even disregarding the additional \$483,553.92 "to provide full compensation"), *the Trial Court awarded Holly between three and five times the maximum loss which could possibly be deduced from Holly's own evidence.*

It has been assumed in the foregoing, solely for the sake of argument, that fluctuations in Holly's volume were caused by Coleman's infringement. As appears below (Part I), however, it is impossible to make such an assumption as a fact.

There was no other evidence purporting to equate Holly's alleged losses with Coleman's sales. If such evidence as is in the record is to be used as a basis of computation and all factors other than Coleman's competition are illogically to be disregarded, it is evident that the fluctuations in Holly's percentage of the national market rather than the whole of Coleman's percentage of the national market must be so employed. Taking the higher

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<sup>1</sup>When Holly's percentage went down the number of competitors in the field had gone up (Part I, below).

fluctuation, that between Holly's post-infringement percentage (20%) and its percentage during infringement, the loss computes, as found by the Special Master, at approximately \$400,000, rather than the \$1,450,661.78 *plus* \$483,553.93 found by the Trial Court [Report of Special Master, R. 50-51].

It is apparent, however, that even this approach to the damage issue is fallacious because fluctuations in the total volume in the national market, together with variations in the number of competing companies shown to have occurred from year to year, and a great variety of unspecified factors, cause percentagewise fluctuations of an individual company to be without significance. Figures introduced by Holly indicate that this was the situation here, as its output substantially increased during the period of infringement (Part I, below). Furthermore, such an approach to the damage issue substitutes inference and conjecture for the required proof of the existence of a demand for Holly's particular heater. *Also, the fact that Coleman's percentage of the national market remained virtually constant during and after infringement shows that if Holly lost any customers they did not come to Coleman* (Part I(2), below).

Finally, Coleman maintained distributing facilities throughout the United States; it had distributors covering every state in the Union, with more than one distributor in many areas, whereas there were parts of the country in which Holly had no outlets at all [R. 1628-1631; Part I below]. A Coleman witness testified without contradiction from Holly that Coleman never heard from Holly in any of the rural areas throughout the country [R. 1629], again showing that it is impossible to conclude that Holly would have made all of Coleman's sales under any circumstances. Furthermore, Coleman sold a complete line of heating products, giving it a competitive advantage over a manufacturer of only one or two



products, such as Holly [R. 1628-1629]. These facts, Coleman's established name in the industry, and its established sales organization, account for the constancy of its share of the National Market, and show that it competes with Holly *whatever* wall heater Coleman produces. This is readily understandable. The Court will no doubt judicially recognize the fact that the vast majority of wall heater purchasers would select the same by such considerations as appearance, the name of the manufacturer, relationships with the dealer, or price, and that it would be very rare indeed to find one who made his selection because of any awareness of the air passages within the heater. Customer demand for the Holly heater, the Coleman heater, and each of the many other competing wall heaters manufactured by other companies, could not possibly have been predicated even in part upon public knowledge or even awareness of the source and route of the air *inside* the heating device. And without such a class of persons it is obvious that there can never have been a specific demand for Holly's heater as distinguished from any of the numerous competitive wall heaters which lacked Holly's patented feature. It is again impossible to conclude that Holly would have made Coleman's sales but for the infringement.

It is, therefore, apparent that for many reasons it is not possible merely to assume that Holly's damages can be measured in terms of Coleman's sales, and the judgment, which requires that assumption to sustain it, is without support.

- d. THE EVIDENCE CONCLUSIVELY SHOWED THAT COLEMAN ACTED IN GOOD FAITH, AND THE SPECIAL MASTER SO FOUND.

The Trial Court found that Coleman acted in bad faith and assessed exemplary damages which, with attorneys' fees allowed upon the same finding, exceeded a half million

dollars. The Special Master, who alone heard the witnesses on the good faith issue, found that Coleman acted in *good* faith, and this is the only conclusion the record will sustain (Part III, below).

As noted in (a), above, it is now an undisputed fact that the case actually involves a mere useless leakage of infringing air into Coleman's economizer rather than the major flow erroneously assumed at the time of the original trial. This was a known fact throughout the present proceedings when the damage issue was tried.

Thus the issue is not whether Coleman acted in bad faith in appropriating a large quantity of useful infringing air, which it was originally assumed to have done, but whether it was guilty of bad faith in failing to eliminate altogether a mere leakage of such air, now shown by uncontradicted evidence to have been useless (Part III(3), below). It is inconceivable that there could possibly have been bad faith on such facts, even apart from the direct testimony on the subject. The evidence shows that Coleman's engineering problem was not how to use the infringing air but how to eliminate it (Part III(5), below), and it was eliminated except for inconsequential leakage.

Dramatic, indeed, was the incident discussed under subsection "a" of this summary (and in Part III(2), below) when it was conclusively demonstrated during the trial below that the original testimony of Holly's expert Landsberg, regarding the quantity of infringing air in Coleman's economizer, was wholly inaccurate. Equally spectacular, however, was the explosive failure of Holly's single attempt affirmatively to prove bad faith.

In its effort to prove bad faith at the trial before the Special Master, Holly called, as a surprise witness from Milwaukee [R. 1310], a Mr. Dean Olds, formerly a Coleman engineer in charge of the department which developed the infringing heater but at the time he testified a consultant for the company which merged with Holly

[R. 1291]. Minutes of the New Products Committee of The Coleman Company of August 14, 1952, were received in evidence [R. 1244-1245]. These minutes, quoting Mr. Olds, said in part: "He mentioned he had recently received the patent information on the Holly units similar to our economizer and after a careful review he was of the opinion our present economizer would infringe on their patent" [p. 10-a of Ex. 19; R. 1245]. Mr. Olds testified that the chairman of the committee "not only instructed me to go ahead, but when I asked what situation we might be in in the event of an issuance of the patent to Holly, he told me that he would take care of that matter when it came up" [R. 1251-1252]. This was the state of the evidence on the issue of bad faith when Mr. Old's direct examination ended.

Upon cross-examination the witness was confronted with two letters he had written to Mr. Horace Dawson of Chicago, Coleman's patent attorney, after he had originally formed the above opinion but still before Coleman's heater was placed on the market. He then admitted that his original opinion had been formed *before* he saw the Holly patent file wrapper; that after he had seen it he changed his mind, concluded that the Coleman heater did *not* infringe the patent, and advised the patent attorney in great detail of his reasons for so concluding (Part III(5), below). The information which he gave in writing to the patent attorney was that air entering the economizer from Holly's source overheated the heater; that it was necessary to eliminate Holly's air to make the heater function; that to do this he had devised a baffle which he called the "air stopper"; that in his opinion the Holly patent did not cover mere leakage, and that all but this had been eliminated in the Coleman heater. It was his written opinion that it was "not necessary to assure an air tight joint in order to distinguish from the claims" of the patent (Part III(5), below).

He had so much trouble with overheating from the escape of Holly air into the economizer, before he reduced it to the minimum, that he concluded that Holly obtained American Gas Association approval of its heater only because that agency did not know how to test it, and had not done so carefully (Part III(5), below).

Old's final opinion, as written to Coleman's patent attorney, was: "I feel that we definitely do not infringe"; and that we (Coleman) "certainly would not care to build our units in the manner described in the patent" (Part III(5), below).

Undoubtedly Coleman's conduct was not wilful in the sense of being in bad faith. There was no intention to appropriate Holly's invention, but just the reverse. The fact that it has been judicially and finally established, upon mistaken evidence, that Coleman *intentionally* infringed Holly's patent, does not establish *bad faith* (Part III(10), below), and the Trial Court did not purport to base its finding of bad faith upon the prior adjudication of intent. The uncontradicted evidence demonstrates that Coleman believed it did not infringe. It could not have foreseen that an action for infringement would eventually be prosecuted upon an erroneous state of facts in which the characteristics of its heater would be overlooked. (It should be noted that at the original trial Coleman's evidence did show that the actual amount of infringing air in the economizer was as it is now known to have been, but it did not then conclusively invalidate Holly's mistaken evidence by visually demonstrating the existence of the overlooked, noninfringing passage.) The fact that it has been found to have acted intentionally, as necessarily it did, does not suggest that it acted in bad faith for it clearly acted in the belief that it did not infringe (Part III(10), below).

The difference between *intentional* infringement (as infringement may later be found by a court) and *bad faith* infringement is illustrated by the following passage



from the January, 1953, letter from Mr. Olds to Coleman's patent attorney, in which he concluded that Coleman did not infringe but had best prepare for suit:

"Furthermore, in view of the fact that I feel that we definitely do not infringe, and certainly would not care to build our units in the manner described in the patent, I do not believe that we would be willing to pay any very excessive royalty. On the other hand, as you would judge, the Coleman Company has every interest in recognizing a legitimate patent and would rather support patents than to attempt to destroy them. This, then, is about the situation as I see it. I think we should prepare for suit.

"Quite naturally, however, a great deal of our future thinking will be governed very strongly by your opinion" (Part III(5), below).

Here is conclusive proof that Coleman, while intentionally standing upon what it deemed to be its rights, did so without bad faith, and intending to be guided by its patent counselor.

Holly offered no evidence other than that given by Mr. Olds upon his direct examination to prove bad faith, but Coleman established its good faith by two additional unassailable methods.

Mr. Horace Dawson, Coleman's patent counsel, testified that he had advised Coleman before its heater was put on the market that there was in his opinion no infringement of the Holly patent. His letter to Holly, written at that time and reiterating that opinion, is in evidence. He gave this advice having in mind the possibility of a leakage of Holly's air into the economizer. There is nothing to suggest that Coleman did not accept and act upon this advice in good faith. Bona fide reliance upon legal advice that there is no infringement is a strong circumstance showing good faith (Part III(7), below).

At the time of the original trial Coleman had applied for a patent on its own heater economizer combination. Subsequently that patent, known as the Giwosky patent, was issued. Coleman manufactured its heaters according to the design of the Giwosky patent (Part III(8), below). Although it was declared upon the basis of the mistaken evidence, and when it was erroneously assumed that Coleman was taking and using large quantities of infringing air from the wall spaces, that Coleman's heater combination differed only in "immaterial details," proof of the truth was still open on the issue of good or bad faith. The truth is that the principles of the Holly and Giwosky patents, and thus of the Holly and Coleman heaters, are fundamentally different (Part III, below). As has been pointed out above Coleman did not want Holly air. It eliminated substantially all of it, and took 97% of its economizer air from non-infringing sources.

The Holly patent provides that the Holly heater shall take 100% of its air in its economizer from the wall spaces outside its lower box, which air entered the wall spaces at the floor level (Part III(4), below). Coleman, on the other hand, took none of its air from that source except the leakage which did not exceed 3.1% of the total. Instead, it took its economizer air from another source, bringing the air in through a grille located at the *top* of the lower box and *directly from the room into the economiser* (Part III(5), (8), below). *The Giwosky patent was issued by the Patent Office after a full consideration of the Holly patent and other representative patents of the prior art.* The fact that an infringer has developed his own design and operated under his own patent is a strong circumstance showing good faith (Part III(8), below).

(It should be noted, however, that in another action the same Trial Court has granted *summary judgment* against Coleman, in favor of the company with which

Holly has merged and thus the same plaintiff in interest as in the present action, declaring that one of the claims of the Giwosky patent is invalid. This was decided upon the basis of essentially the same prior patents which the Patent Office considered not to anticipate the invention, but as to which the Court found no issue which Coleman should be permitted to try. An appeal from that judgment is now pending in this Court (No. 16154) and consolidation of the two appeals will be sought.)

It is therefore submitted that there is no evidence of bad faith, and that good faith as found by the Special Master was conclusively shown by the following:

1. Direct evidence, upon the contemporaneous writings and cross-examination of Holly's witness, Olds, that while designing for Coleman he attempted to exclude all but leakage of Holly's air.
2. Direct evidence of this same witness Olds, and by undisputed tests of the heater, that Coleman's engineer succeeded in doing so in the process of developing a different combination.
3. The belief of the witness Olds and of The Coleman Company that there was no infringement.
4. Advice of Coleman's patent counselor that there was no infringement.
5. Reliance by Coleman upon its own patent as applied for and issued.
6. The lack of any utility of Holly's air in the Coleman heater, as shown by undisputed evidence.
7. Holly's admission that if, as is now established (although not in time to alter the original decree), the amount of infringing air is too small to affect the heater, the rule *de minimis* would apply [R. 710].
8. The presumption of good faith, and the absence of any evidence to conflict with it.

## ARGUMENT.

The final Judgment appealed from [Par. 5, R. 436] awards Holly damages, attorneys' fees, and costs which total \$2,508,642.73. The aggregate awards for "actual" damages total \$1,934,215.71. The punitive assessments total \$562,148.83. For the convenience of the Court the following descriptive tabulation of the various items is made:

### TABULATION OF DAMAGES, ATTORNEYS' FEES, AND COSTS ASSESSED BY TRIAL COURT.

#### *Actual Damages*

Lost Profits on Total Coleman Sales of \$7,635,062 (which includes \$182,851 of contempt sales) at the estimated 19% alleged profit rate of Holly	\$1,450,661.78
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33⅓% of Holly's lost profits on Coleman's total sales (including contempt sales) <i>as further compensation.</i>	\$ 483,553.93
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#### *Punitive Awards*

25% of Holly's alleged lost profits on Coleman total sales (including contempt sales)	\$ 362,665.45
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Attorneys fees exclusive of contempt proceedings	\$ 130,000.00
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Added Punitive Damages of twice Holly's alleged lost profits of \$34,741.69 on the contempt sales	\$ 69,483.38
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#### *Other Awards*

Attorneys' fees and expenses in contempt proceedings	\$ 9,269.77
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Costs	\$ 3,008.42
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Total	<hr/> \$2,508,642.73
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I.

**The Court's Award of \$1,450,661.78 as Plaintiff's Lost Profit Is Factually and Legally Erroneous.**

There is one arresting fact which brings into focus all that will be said below: having the burden of doing so, Holly *failed to prove a single lost sale*, undoubtedly because it could not do so. The startling contrast between this significant lack of proof of even one lost sale, and the award of \$1,450,661.78 for "lost sales," quickly demonstrates the incredible nature of the judgment.

The basis for the principal damages awarded below is set out in the Court's Finding X [R. 425-426] which reads:

"Plaintiff, during the period involved, was in good financial condition; as business increased the plant was enlarged; and in all reasonable probability plaintiff would have manufactured and sold additional patented wall heaters equal in number to the infringing sales if the infringing heaters had not been available."

Thus the Court concluded that but for the infringement *all* of Coleman's customers would have purchased from Holly. (As noted below in this Part, and in Summary of Argument, section c, this is an assumption which cannot be supported.) The Court also accepted Holly's unsupported claim (Part I(3), below) that it would have made a 19% profit on every additional wall heater it might have sold, and multiplied this arbitrary percentage by Coleman's total sales of \$7,635,062.00 to arrive at the lost profits damages of \$1,450,661.78 [Finding XIII, R. 426]. In so doing the Court rejected the contrary findings of the Master who heard all the evidence in the accounting trial. As stated in the Report of Special Master [R. 52-53]:

"However, there is no evidence before me that plaintiff could have made all of the sales made by

defendant. In my opinion some of defendant's customers would have used heaters without the patented features, supplied by the defendant or others, and that *it would be highly conjectural to find that plaintiff could have made all of defendant's sales but for the infringing heaters.*" (Emphasis added.)

"The patented device is not in the category of devices where a customer is required to use the patented device or do without. There were and are many wall heaters on the market not incorporating the patented features which will heat a room. Perhaps not as efficiently as plaintiff's patented heaters but the customer can use them if he so desires. He is not compelled to use plaintiff's patented heater or go without heat."

Even this finding is very generous to Holly for there was not and could not have been proof of any public demand for, or even awareness of, wall heaters whose economizers were supplied with wall space air. As the trial judge himself conceded, *"I don't suppose anyone bought this Holly heater because a certain amount of air was flowing up the rear of the sides of the lower box"* [R. 1928].

The figure for lost profits which the Master believed to be supported by the evidence was \$400,000, which corresponds to about 25% of Coleman's total sales, as compared with the Court's figure of \$1,450,661.78 computed on the assumption that Holly would have made 100% of Coleman's sales. The Master's computation is summarized in his report as follows [R. 50-51]:

"The fact that plaintiff's percentage of the sales of wall heaters was 19% in 1951 and rose to 20% within three months after the infringement stopped

indicates that plaintiff would have enjoyed at least 20% of the national market but for the infringement. The additional sales of 1.2%, 5.4%, 2.3% and 2.3% for 1952, 1953, 1954 and 1955 respectively, at the plaintiff's profit of \$14.50 per unit would approximate an additional \$400,000 profits to plaintiff but for the infringement."

1. **The Realities of the Wall Heater Market Situation as Disclosed by the Evidence Make It Impossible to Conclude That Holly Would Have Made All of Coleman's Sales.**

At all times during the period of the infringement Holly was faced with many competitors besides Coleman. As shown by American Gas Association (AGA) records, the number of companies in the gas wall heater industry for the years from 1952 to 1956 were [R. 1626]:

<u>Year</u>	<u>No. Mfgs.</u>
1952	16
1953	19
1954	11
1955	13
1956	12

During the years from 1952 through 1956, the combined sales of Holly and Coleman never exceeded 30% of the total national wall heater market [Orig. R. 542, R. 1625, 1630, Accounting Ex. 47; Holly's graph R. 322]. In other words, some 70-75% of all wall heater sales in the United States over this period went to competitors of Holly and Coleman.

The direct effect on Holly of competition from companies other than Coleman is clearly demonstrated by comparing the relationship between Holly's percentage of the national market with the number of AGA approved com-

petitors during the years from 1952 to 1956. This data tabulates as follows [R. 1625-1626; Accounting Ex. 47; Orig. R. 542]:

Year	No. AGA Approved Companies	Holly's % National Market
1952	16	18.8
1953	19	14.6
1954	11	17.5
1955	13	17.7
1956	12	17.7

As can readily be seen, Holly's percentage of the National Market decreased in 1953 when the number of AGA approved competitors increased; increased in 1954 when the number of competitors decreased; and remained substantially the same from 1954 to 1956 while the number of competitors also remained substantially the same.

Also, it should not be overlooked that the total wall heaters sold in the United States increased rapidly after 1951. For example, the Department of Commerce industry totals for 1951 showed shipments of 205,486 units of which Holly shipped 39,319 units representing 19.1% of the total [Orig. R. 542]. In 1954 the national total was 350,000 units of which Holly's shipments accounted for 17.5%, reduced from the 19.1% of 1951, yet the units shipped by Holly greatly increased: 61,406 units in 1954 as compared with 39,319 in 1951 [Orig. R. 542], an increase of over 50%. Obviously, Holly was having to expand rapidly even to maintain its approximate share of the national market. What basis, then, could there be for assuming as the Trial Court has done that Holly could also have manufactured sufficient additional heaters to have absorbed Coleman's entire share of this expanding market?

There is not the slightest evidence that Holly would ever have been able to absorb Coleman's share of the national

wall heater market. The evidence establishes that if Coleman had not had the infringing heaters on the market, it would nevertheless have manufactured a competitive wall heater line, which would have been sold through the long established Coleman organization. It should be borne in mind that Coleman for many years has had complete national distribution of its products, whereas even today Holly does not sell in certain areas of the country [R. 1628-1631].

Even if Coleman had gone out of the wall heater business entirely during the years 1952 through 1956, then nevertheless Coleman's percentage of the national market would have been redistributed among all the competing companies in the wall heater industry and would not all have gone to Holly, there being no proof, and the nature of the heaters making such proof impossible, that only those of Holly and Coleman could satisfy the demand [see R. 1627-1628]. An assumption that Coleman's customers, who gave it 11% of the national market, purchased these particular models because undetected puffs of air (or any quantity) reached the economizers through an air passage patented by Holly, would be so unreasonable that we believe no court would consciously make it, yet this is exactly what the judgment does assume. As a Coleman vice-president testified, Coleman lost many sales to manufacturers who did not even have an economizer on their heaters at all [R. 1627-1628], and so must Holly have done.

Holly presented no evidence bearing directly on the question whether there was a definite segregated demand even for wall heaters equipped with economizers, regardless of the source of their air, as distinguished from all other AGA approved gas wall heaters. *A fortiori* there was not, and could not be, any evidence of a special demand for wall heaters feeding economizers with air from the lower wall spaces, as observed by the trial judge and quoted



above. There was some testimony by Holly's witnesses that *up to 1952* the *economizer* feature of the Holly heaters (not the source of the economizer's air) provided a competitive advantage. However, Holly's attorney pointedly refrained from asking any of Holly's witnesses about the competitive situation as it existed throughout the wall heater industry *during the years of the infringement*. Nor did Holly offer any evidence connecting its alleged distinctive sales features with customer preference at any time. As shown in the following subsection of this brief, Coleman's sales *increased* when, in 1957, it brought out a non-infringing heater *which did not even have an economizer at all*.

Coleman's evidence on the other hand shows that starting in 1953 (which was the first full year of Coleman's infringement), there was a general upgrading of the wall heater products of Holly's competitors. By 1953 competitors of both Holly and Coleman were selling AGA approved single stud space wall heaters, including ones of 35,000 BTU capacity like Holly's [R. 1626].

In discussing AGA (American Gas Association) regulations and testing procedures, Holly's witness Mr. Hollingsworth made clear, perhaps inadvertently, that the upgrading of competitive heaters to a level directly competitive with Holly was made compulsory by 1954. In that year a new *retroactive* set of regulations was adopted by AGA, and all manufacturers were required to obtain new approvals. Under the 1954 AGA regulations, as explained by Mr. Hollingsworth, every heater was tested for "hot spots" from floor to ceiling, and with a flue height that corresponded to the actual conditions of use [R. 1164-1165].

In 1953, nineteen companies held AGA approvals on gas wall heaters, while only eleven manufacturers received approvals under the retroactive regulations of 1954 [R. 1625-1626]. The wall heaters of each of these

eleven manufacturers were necessarily of a directly competitive quality to the Holly heater. In order to receive 1954 AGA approval, the heaters had to solve the hot wall problem from floor to ceiling while achieving at least 70% efficiency under the test conditions. The 70% efficiency was a practical maximum. Mr. Hollingsworth admitted that Holly's run-of-the-line production units would average only 68 to 69% on the AGA efficiency test [R. 1230].

The Court's Finding No. VIII [R. 425] does not specify the time when other wall heaters supposedly did not have the same sales features as the Holly and Coleman heaters. The finding would have some support in the evidence, but no relevance, if it refers to the period before 1952. Otherwise, the finding is directly contrary to the evidence. As previously noted, during the entire period of the infringement many other companies were marketing directly competitive AGA approved gas wall heaters.

2. The Law Requires That Any Claimed Actual Damages for Patent Infringement Be Proved With Certainty, and There Is No Presumption of Damage Beyond That of a Reasonable Royalty.

It has long been settled that the burden of proving damages rests upon the patent owner: *Robertson v. Blake*, 94 U. S. 728 (1877); *Dodson v. Hartford Carpet Co.*, 114 U. S. 439 (1885). "Actual damages must be actually proved, and cannot be assumed," said the Supreme Court in *Seymour v. McCormick*, 57 U. S. (16 How) 480, 490 (1853). The statutory "reasonable royalty" the patent owner may recover if he chooses. But as noted in *Seymour v. McCormick* (p. 490):

"If he claims anything above that amount, he is bound to substantiate his claim by clear and distinct evidence."

The Court added (p. 490):

“The question is not what speculatively he may have lost, but what actually he did lose.”

The burden is not carried by claiming without proof that Holly would have made Coleman's sales: *Power Specialty Co. v. Connecticut Light & Power Co.*, 80 F. 2d 874 (2d Cir., 1936); *Wedge v. Waynesboro Nurseries*, 31 Fed. Supp. 638, 641-642 (W. D. Va., 1940); *American Can Co. v. Goldee Mfg. Co.*, 31 F. 2d 492 (D. C. N. Y. 1927); *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U. S. 641 (1915); *Underwood Typewriter Co. v. E. C. Stearns Co.*, 227 Fed. 74, 82-83 (2d Cir., 1915); *McSherry Mfg. Co. v. Dowagiac Mfg. Co.*, 160 Fed. 948, 951-953 (6th Cir., 1908).

As shown by the foregoing decisions, the courts have uniformly held that damages allegedly based on lost sales may never be presumed. The rule is the same even though a plaintiff and a defendant are the only sources of products which infringe the patent in suit, and even though the patented product has some sales features not provided by other products for the same general purpose. (See *Power Specialty* and *Waynesboro Nurseries* cases cited above.)

A most complete and authoritative discussion of this question is found in the above cited *Power Specialty* case (80 F. 2d 874). The facts, there, were substantially identical with those of the present case. The following extract from page 875 of the opinion shows the direct applicability of the decision to the case at bar:

“Although appellant and appellee were the only manufacturers of the patented economizer, it does not follow that, if the sales had not been made by the appellant, the appellee would have made them. Other manufacturers were selling economizers suitable for steam plants. . . .



“ . . . No claim of loss or profits would be justified unless the customer had to have an economizer of a kind which it must have bought from the appellee if not from the appellant. It appears in these circumstances that the buyers might have purchased devices other than the appellant's economizers or might not have bought any.” (Emphasis added).

In summarizing the law and the evidence, the Court further stated (p. 877):

“From the foregoing, it is clear that the allowance of profits on a basis of lost sales was not sustained by the proof, and the appellee's damages should not have been thus measured. Where lost sales profits have been allowed, the courts have found that, but for the infringement, the plaintiff would have made the sales either to the infringer himself or to the eventual customers. (Citing cases.) This fact must be proved and cannot be presumed. (Citing cases.) *Without sufficient proof, as here, the damages should be measured on the basis of a reasonable royalty.*” (Emphasis added.)

If the market areas reached by the Coleman sales organization had been the same as those reached by Holly, and had the customers in those areas really preferred wall heaters equipped with economizers using wall space air, it is obvious not only that Holly would have proved it but that Coleman's sales would have dropped drastically on the termination of the infringement. But Holly offered no such proof, and for good reason. What actually happened on the termination of the infringement was that Coleman's sales *increased* rather than decreased. In the first four months after the introduction of defendant's *non-infringing* line of wall heaters, Coleman sold 10,399 gas wall heaters as compared with 9,303 wall heaters during the corresponding months of 1956 [R. 1624]. Coleman's

plant was then struck for 53 days which seriously interfered with the company's production and shipping. Nevertheless, during the first six months of 1957 Coleman sold 10.7% of the national wall heater market as compared with 11.1% for 1956 [R. 1625]. This evidence is conclusive in itself that Coleman's 11% share of the national market, which it had maintained for many years prior to, during, and subsequent to the infringement, would not have gone to Holly [R. 1630].

Holly's position here is very much like that of the plaintiff in the *Waynesboro Nurseries* case (cited above) where the Court stated (31 Fed. Supp. at p. 641):

"In other words, it would seem that, while plaintiffs were unable to sell to these persons during the period of infringement, they were equally unable to sell to them either before or after this period. If I am correct in my reading of the evidence, it is not shown that any of the persons to whom defendants sold were customers of plaintiffs before defendants' infringing product came on the market or became customers after the infringement ceased. This would indicate that plaintiff is complaining of sales to persons to whom it has never been able to sell and that defendants' market was one which for some reason has never been reached by plaintiffs."

It is believed that the trial court was misled by decisions cited by Holly where lost sales damages have been awarded in entirely different factual situations. The decisions which Holly claimed supported such an award in the present case were: *Bemis Car Box Company v. J. G. Brill Co.*, 200 Fed. 749, 758 (3d Cir., 1912); *Livesay Window Company, Inc. v. Livesay Industries, Inc.*, 251 F. 2d 469, 471 (5th Cir., 1958); *Electric Pipelines, Inc. v. Fluid Systems, Inc.*, 146 Fed. Supp. 262 (D. C. Conn., 1956); and *National Rejectors, Inc. v. A.B.T. Mfg. Corp.*, 188 F. 2d 706 (7th Cir., 1951).

The *Bemis* case dealt with a factual situation in which the defendant, prior to the infringement, purchased the infringing product from the plaintiff. There was no other source of the product, and consequently the only issue was whether defendant would have continued to buy from plaintiff if defendant had not manufactured the product itself during the period of infringement. Thus, there was no uncertainty about the fact of specific and identifiable lost sales. As the Court stated (200 Fed. at p. 762):

“While thereafter defendant ceased purchasing plaintiff’s boxes, it did not stop using boxes of that type, for the infringing box was but the plaintiff’s box made by the defendant. The desire of the defendant to use that type of box would, therefore, had it not become an infringer, have probably caused it to continue to purchase from the plaintiff. *Its conduct, both before and during the period of infringement, is wholly and only consistent with the conclusion that the defendant would have continued a customer of the plaintiff, had it not become an infringer.*” (Emphasis added.)

In the *Livesay* case the evidence conclusively established that all of the sales which defendant made could only have been made by plaintiff. Both the plaintiff and the defendant sold their products under the name “Livesay” and this was the way it was specified in architects’ plans, so that no other product could possibly meet the requirements of the specification. As stated in the Opinion (251 F. 2d at p. 478):

“Indeed, a common thing was for the *architect’s written specifications* to call for Livesay Concrete Window Frames’ meaning specifically either of the two frames. At least as to all of the residences comprising the 9.5% with built-in blind guides which went to make up the combined volume of Infringer and

Licensee, the builder, or contractor, or architects called for this type of frame. *As to this market demand, the source of supply was confined to these two parties and had not the infringement occurred, the Licensee would here have had a monopoly in an article having established trade acceptance of great extent.*" (Emphasis added.)

The *Electric Pipe Line* case involved a factual situation similar to the *Livesay* case. The sales were made through competitive bids which defined the character of the required systems by detailed specifications. The basis for the holding that plaintiff would have made the sales but for the infringement was the Master's finding:

"... that Fluid Systems and Electric Pipe Line were the only sellers of the kind of system required by the specifications of the job in question." (146 Fed. Supp. at p. 263; emphasis added).

The Opinion of the Court of Appeals in the *National Rejectors* case merely summarizes the Master's Report. However, it is clear from the Court's Opinion that the type of product there involved could have been obtained only from the plaintiff or defendant. The Master had specifically found (188 F. 2d at p. 709):

"... that purchasers of defendant's infringing devices would have made these purchases from plaintiff but for defendant's infringement; . . ."

Thus, in these cases there was a proved demand for the patent owners' particular products, with which only the infringers' products interfered.

In the present case we have a factual situation in which many competitors were supplying a product for the same purpose. All wall heater manufacturers are classified as one industry by the United States Department of Commerce [Orig. R. 542]. This is certainly not a case where



it may be said, as in the cases cited by Holly, that but for Coleman's infringement the particular sales involved would necessarily have been made by Holly. Coleman was not a former customer of Holly, nor were the sales involved here made under specific job requirements or specifications, nor was there a special demand for single stud space wall heaters equipped with economizers with or without lower wall space air. Rather, this is a situation like that which was found in the *Power Specialty* case in which the Court stated (80 F. 2d at p. 875):

"that the buyers might have purchased devices other than appellant's economizers or might not have bought any."

The Master's Report specifically so found [Report of Special Master, R. 52-53].

This is not a case in which in reason, or under the law, Holly's damage can be equated with Coleman's sales, and the judgment is therefore without evidentiary support.

**3. The 19% Profit Margin Attributed to Holly Is Without Support in the Record.**

Although Finding XII [R. 426] states that "Plaintiff's net profit on the patented wall heaters was approximately 19% of its net sales," there was no evidence presented from which such a figure could be determined. During the years from 1952 to 1957, Holly sold a number of other products besides wall heaters. No records were kept for most of these years which show the profit margins on wall heaters. The records for 1952 to 1955 disclose only total profits on all products without any breakdown between products. The first records indicating Holly's profit margin on wall heaters pertain to the years 1956 and 1957 [Accounting Exs. 33, 34 and 36]. Exhibit 33, which consolidates Exhibit 34 and represents the fiscal year 1956-1957 [R. 1329], shows only a 7.1% profit margin on wall



heaters. This percentage is based on net sales and is before taxes, and is therefore on the identical basis as the 19% figure adopted by the Court. Exhibit 36 [R. 1341] shows a corresponding figure of 10.5% profit on wall heaters for the first half of 1956.

Clearly, either 7.1% or 10.5% is entirely different from 19%. How then did the Court arrive at the 19% figure? There is nothing in the findings to indicate where this percentage came from, but apparently the Court simply accepted plaintiff's bare assertion that the 19% figure was supported by the record. *All* that plaintiff ever offered in support of this percentage was the following, which is quoted from plaintiff's Memorandum in Support of Its Proposed Findings [R. 252-253]:

"The 19% figure was ascertained over a 2½-year period, a portion of which was prior to Coleman's entry into the market, and a portion of which was after Coleman's entry into the market. This average profit figure was ascertained on the basis of Holly's 20.1% profit margin in the year 1951, its 17.4% profit margin in the year 1952, and its 19.7% profit margin during the first half of 1953. [Accounting Tr. 777, 841.]"

(The transcript references in the foregoing quotation may now be found at R. 1431-1432 and R. 1488.)

It should be noted that the figures set out in the foregoing quotation, which were destined to become the measure of damages, were only supposed to represent the total profits of Holly on all its operations, including profits derived from other sources than sales of its products, and profits on products other than wall heaters [Accounting Ex. 23, p. 6; Accounting Ex. 24, p. 4; R. 1431-1432, 1488]. This will be clearly demonstrated by reference to the testimony Holly cites as support in the foregoing quotation: "Accounting Tr. 777, 841," now found in R. 1431-

1432 and 1488. Obviously, the profit margins which Holly made on its total operation are completely irrelevant to the question of how much profit Holly might have made if it had sold all of Coleman's heaters.

The utter invalidity of the 19% figure adopted by the Court can be demonstrated another way. Holly's profits on its total operation varied widely over the years from 1952 to 1957. The alleged 19% average profit on wall heaters bears no relation to even the average total profits made by Holly during the period of the infringement, much less to any profit which Holly made or could have made on its wall heater sales alone. Holly's Annual Reports show the true situation [Accounting Ex. 24, p. 4; Ex. 25, p. 4; Ex. 26, p. 3; Ex. 27; Ex. 28, p. 2, and Ex. 29, p. 3]. The pertinent figures from these reports are summarized below:

HOLLY'S PROFIT PERCENTAGE ON ITS TOTAL OPERATION.

<u>Period</u>	<u>Net Profit Before Taxes (% to Net Sales)</u>
1952 (Calendar Year)	17.4%
1953       "       "	13.8
1954       "       "	8.3
1955       "       "	14.6
Calendar Year to June, 1956	5.9
Fiscal Year to Dec.,       1956	6.3
Fiscal Year to Mar.,       1957	2.8
	<hr/>
Average	9.8%

If the figures in the foregoing tabulation are averaged, the result as indicated above is 9.8%. Such an average would have considerably more justification than the 19% average proposed by plaintiff, which was based on an arbitrarily selected two and one-half year period. It would also correspond much more closely with the actual figures

for 1956 and 1957 of 7.1% and 10.5%, *which are the only figures in the record showing profit percentages for Holly's wall heater sales.*

Summarizing, the Court's finding that plaintiff's net profit on wall heaters was approximately 19% of its net sales is wholly without evidentiary support. Holly kept no records breaking down its over-all profit until the years 1956 and 1957. On the consolidated report [Accounting Ex. 33] the net profit on wall heaters was 7.1% of net sales for the fiscal year 1956-1957. In the first half of 1956, the corresponding figure was 10.5%. The 19% figure comes from a devious calculation proposed by plaintiff wherein a two and one-half year period is arbitrarily selected for a computation of average total profits, and without confinement to the product here in issue. Even by this shotgun method of computation the ultimate conclusion is irrational since Holly's average profits on all products for all years in question, 1952-1957, was only 9.8% of net sales, as shown above from its own figures.

When it is considered that Coleman's total sales of wall heaters from 1952-1957, amounting to over seven and one-half million dollars, has been multiplied by 19% in the primary damage calculation, the magnitude of the court's error is readily apparent. Every percentage point under this extraordinary method of calculation is worth \$76,350. It is therefore submitted that it was gross error for the Court to make such a calculation with an unsupported and speculative multiplying factor of 19%.

II.

**The 33-1/3% Increase of the Assumed Lost Profits Damages Is Arbitrary, Unreasonable and Without Evidentiary Support.**

The Court's Finding XXII [R. 430] presumes that the figure of \$1,450,661.78 is inadequate to compensate Holly for its actual damage. The 33⅓% increase amounts to \$483,553.93, bringing the total assessment for "actual" damages to \$1,934,215.71. This compares with the total damages as found by the Master of \$785,975.85 [Report of Special Master, R. 60, 67]. The final figures as arrived at by the Court and by the Master as to Holly's supposed actual, reasonable and probable damages differ by \$1,148,239.86. Without having heard any of the lengthy and involved evidence on the accounting, the Court has perceived two and one-half times as much *actual* damages as did the Master.

The Court's Finding XXII refers to three types of damages which supposedly justified the 33⅓% increase: (1) "forced price reductions," (2) "increased selling expenses," and (3) "curtailment of plaintiff's market expansion." All of these types of alleged damage were specifically considered by the Master and taken into account in arriving at the total figure of \$785,975.85 recommended by him [Report of Special Master, R. 48-52, and his Finding V, R. 62]. On the facts of this case, however, they are mere generalities having no substance to support them.

It is Coleman's position that both the Master and the Court erred by deriving definite dollar values from these hypothetical types of damage when the record is devoid

of any data permitting such computation. The case law requiring that any damages other than a reasonable royalty be proved with certainty has no exceptions.

The Court's Finding XXII [R. 430] states categorically that "the damages suffered by plaintiff due to forced price reductions and increased selling expenses amount to at least \$280,000." There is nothing in the record even to suggest support for this finding. In order to support a specific calculation of this type, it would be necessary to make the preliminary finding, impossible in this case, that Coleman's infringement was the *sole* cause of the lower per cent profit made by Holly in the years 1953 to 1955 as compared with the years 1951 and 1952: *Power Specialty Co. v. Connecticut Light & Power Co.*, 80 F. 2d 874, 878 (2d Cir., 1936); *American Can Co. v. Goldee Mfg. Co.*, 31 F. 2d 492, 493 (D. C. N. Y., 1927), affirmed 31 F. 2d 494 (2d Cir., 1929).

As held in the *Power Specialty* case:

"It was error to allow recovery for reduction in prices in appellee's original bid due to the competition of the appellant in three of the instances where the installation was made by the appellee. *To succeed in this claim, appellee must prove that it lost profits because it was compelled to lower its price solely because of competition by the appellant.* (Citing cases.)" (Emphasis added.)

The record is without evidence to support the conjecture that Holly's slightly lower profit margins in the years 1953 to 1955 were caused by Coleman's infringement rather than by other factors. *In fact, the only evidence at all which Holly presented with regard to price reductions related only to sales to one specific customer in Florida* [R. 1028-1033]. Clearly, such limited evidence cannot support the sweeping generalization made by the Court.



Most of the asserted damage to Holly's profit margin is supposed to have occurred in 1953 and 1954 [Report of Special Master, R. 50]. Holly claims to have made a profit of \$2.00 less per unit sold in those years than in the immediately preceding year. However, there were many factors other than Coleman's infringement, as admitted by Holly's own vice president, Mr. Hammond, that led to the reduced level of Holly's business at that time. A major factor, as noted above Part I (1), was the entry of three new AGA approved competitors into the field in 1953. As discussed by Mr. Hammond, there was also the steel shortage due to the Korean War, and the fact that Holly had reached the limit of its plant capacity [Orig. R. 468-471].

Even aside from the fact that there is no evidence showing that the reduced profit margins were caused by the infringement, the assumption underlying the Court's conjecture is fundamentally incredible. It is almost unheard of for a corporation to maintain the same profit margin year after year independent of changing business conditions. Yet the Court has assumed exactly this unlikely phenomena—that Holly would have continued to operate at the same profit margin during each of the years 1953, 1954, and 1955 as it did in the years 1951 and 1952. Obviously, such an unlikely proposition could not be adopted as a foundation for calculating damages without the clearest proof.

Finding XXII [R. 430] also assumes that Holly suffered additional damage due to a curtailment of its market expansion. Since the Court had already compensated Holly for its assumed loss of all of Coleman's business, Finding XXII can only refer to Holly's loss *by not taking business away from other companies besides Coleman*. What could be more illogical than such a conclusion? Coleman's infringement could not have prevented Holly from expanding at the expense of its non-infringing competitors. Furthermore, a nearly fabulous expansion would

have been required to permit Holly to absorb all of Coleman's output plus an additional volume of business sufficient to yield a further profit of \$483,661.78.

We know that Coleman from 1952 through 1956 had only approximately one-tenth of the gas wall heater business in the country, while Holly's other non-infringing competitors accounted for two-thirds of the total business [Orig. R. 542; Accounting Ex. 47; R. 1624-1625].

In other words, two-thirds of the market was wide open to Holly. Yet when Coleman ceased to sell the infringing heaters [R. 1623], Holly simply retained about the same minor share of the national market [Accounting Ex. 47, R. 1768, and Ex. 43, Orig. R. 542].

### III.

#### **As Coleman's Good Faith Is Completely Vindicated, There Is No Legal Basis for the Award of Punitive Damages and Attorneys' Fees.**

It is well settled that in patent infringement actions there can be no basis for an award of either punitive damages or attorneys' fees unless the evidence establishes beyond question that the defendant was actuated by malice, bad faith, or some other improper motivation:

*Enterprise Mfg. Co. v. Shakespeare Co.*, 141 F. 2d 916, 920 (6th Cir., 1944);

*Creagmile v. John Bean Mfg. Co.*, 32 Fed. Supp. 646, 648-649 (S. D. Cal., 1940);

*Cincinnati Car Co. v. New York Rapid Transit Corp.*, 66 F. 2d 592, 593 (2d Cir., 1933);

*Park-In-Theaters v. Perkins*, 190 F. 2d 137, 142 (9th Cir., 1951);

*Faulkner v. Gibbs*, 199 F. 2d 635, 641-642 (9th Cir., 1952).

Of the foregoing citations the first three cases deal specifically with the law relating to punitive damages while the last two deal with the question of awarding attorneys' fees. The applicable rule, however, is the same. Before a Court can exercise its discretion to award either punitive damages or attorneys' fees it must first find from the evidence that the infringer's conduct in resisting the patent was consciously wrongful. As stated in the *Enterprise* case (141 F. 2d at p. 921):

"Compensatory damages constitute adequate remuneration for invasion of a patentee's property rights, unless the refusal of the infringer to bow to the presumptive validity of an issued patent is consciously wrongful. A court of equity, exercising patent jurisdiction, does not readily infer wrong motivation upon the part of those resisting the validity of patent claims. Patentees generally entertain suspicion that those who challenge their claims are deliberate malefactors. However bona fide, such suspicions produce no legal effect, unless sustained by evidence substantiating suspicion as truth."

This Court similarly summarized the law governing the awarding of attorneys' fees in patent cases in the *Park-In-Theatres* case (190 F. 2d at p. 142):

"Thus, payment of attorneys' fees for the victor is not to be regarded as a penalty for failure to win a patent infringement suit. The exercise of discretion in favor of such an allowance should be bottomed upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular lawsuit be left to bear the burden of his own counsel fees which prevailing litigants normally bear."

1. The Court's Finding of Bad Faith Is Directly Contrary to the Report of the Special Master Although Based on the Same Evidence.

It is Coleman's position that the Court's Findings XXIII, XXIV, and XXVI [R. 430-431] are clearly erroneous and find no support in the evidence. The Court found that "defendant's conduct amounts to unfairness or bad faith." This is directly contrary to the Report of the Special Master who found good faith. It must be borne in mind that the issue of whether Coleman acted in good faith first became material and was tried for the first time during the accounting, and that the Special Master alone heard the witnesses on this issue, including Coleman's patent attorney, Coleman's chief design engineer and one of his assistants, and all witnesses concerning the effect of the infringing air flow on the heater. As set out in Finding XXIII [R. 67] and Conclusion VI [R. 69] of his Report, the Special Master recommended that there should be no increased damages up to the time of the issuance of the original injunction. The evidentiary basis for his conclusion is summarized in his Report as follows [R. 60]:

"Defendant offered evidence of good faith on the question of increased damages. The evidence shows that it had received expert opinion to the effect that the patent was not infringed and that it in good faith relied upon those opinions."

The Special Master did not pass on the question of whether punitive damages might be awarded on the small amount of sales involved in the contempt proceeding, nor does the Report contain a specific recommendation with regard to attorneys' fees on the case in chief, although it necessarily follows from the finding of Coleman's good faith that no basis existed for such an award. (It may be noted at this point that the total sales involved in the contempt were relatively negligible, amounting to but \$182,-

851 as compared with the sales prior to the original injunction of \$7,452,211, which combined made up the total sales of \$7,635,062. All questions relating to the contempt proceeding are discussed in Part IV of this brief.)

We will now examine the actual conduct of Coleman in the light of the legal principles governing the award of exemplary damages and attorneys' fees, upon the basis of which the Special Master found that Coleman acted in good faith and the Trial Court found that it acted in bad faith.

## 2. The True Nature of Coleman's Heater as Contrasted With Holly's.

As appears below, both the legal advisors and the technical advisors of Coleman concluded, after a study of Holly's patent and the file wrapper, and with a true knowledge of Coleman's heater, that there was no infringement. In view of the fact that infringement was later judicially declared, it becomes important to recognize the fact that the evidence upon which that declaration was made was mistaken evidence—important not for the purpose of reconsidering the infringement, but as a necessary basis upon which to determine the issue of good faith. The actual facts and not Holly's mistakenly proved facts necessarily governed Coleman's legal and technical advisors long before the mistake was made.

In this connection it should be noted again that at the original trial Coleman *did* show the true quantity of infringing air in its heater [Orig. R. 395, 406], albeit Coleman then failed conclusively to destroy, as it later did, the mistaken factual premise upon which Holly's expert made his contrary deductions. The trial court believed Holly's evidence, and it was not until later that the inaccuracy of Holly's factual premises was conclusively revealed. Thereafter the actual facts were not disputed.



All of Holly's original evidence on this point was given by a Mr. Henry Landsberg. His conclusions were that the economizers of the Coleman heaters used from 23% to 57½% of infringing air, depending upon the kind of heater tested [Orig. R. 226-227]. It is now an established fact that the actual amount of infringing air did not exceed 3.1% [R. 1592-1594, 1749-1751], and since revelation, at the contempt hearing, of Holly's original error, this fact has not been disputed.

Mr. Landsberg's error was that he overlooked a large passage of non-infringing air. His method of computing the percentage of infringing air was to subtract from the total volume of air emitted from Coleman's economizer the volume of air passing through the only non-infringing passage of which he then knew. In his opinion there were only two sources of air into the Coleman economizer, one an infringing source and the other a non-infringing source.<sup>2</sup>

It has now been established, without dispute, and by visual demonstration by means of smoke, that there was a third source of a considerable volume of non-infringing air, overlooked by Mr. Landsberg, also feeding the Coleman economizer [R. 532-538, 598-645, particularly R. 603-606 and 624-625]. The air from the previously overlooked non-infringing passage was referred to throughout the contempt hearing, and in the cited references, as the "brown" air.

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<sup>2</sup>Orig. R. 265, 692-694. The "upper grill" referred to at page 265 is the outlet from the Coleman economizer, at which point Landsberg measured the flow of air from the economizer. Points 7 and 8 are openings into the economizer directly from the room, thus admitting non-infringing air into the economizer. In the Landsberg formula at page 693 the total air from the Coleman economizer is V. Air entering at 7 and 8, non-infringing, is Y. Infringing air is X. Knowing only of these two sources of air into the economizer, the total volume (V) was, to him, X plus Y. By subtracting the non-infringing air entering from 7 and 8 from the total volume (V), he concluded that all of the remainder (X) was infringing air.

Obviously this fact invalidated Mr. Landsberg's calculations, and he admitted that this was so. Upon disclosure of the previously overlooked air passage, Mr. Landsberg's testimony was [R. 557-559] as follows:

Q. Mr. Landsberg, what you were attempting to do with your test was to determine how much of the air coming out of 5<sup>3</sup> went up the back of the heater outside the box, weren't you? A. Yes, sir.

Q. And you understand what we mean by these various colored areas, brown, green, pink, don't you?

A. I didn't follow all of that completely.

Q. All right. I will put it to you in other language then: When was the first time your attention was called to the existence of any passage up *inside* of the box of the lower heater that permitted air to get into the Economizer? A. I wasn't too aware of that, actually, as my tests were made and as the formula was computed it was considered that there were two sources of air into the Economizer, one from the outside and one from the bottom.

Q. In other words, what you did was in good faith accept the data that was given you, you used the data given you as far as where you were going to start your calculations, did you not? A. Well, the tests were made on that premise.

Q. That is what I mean. At no time did anybody tell you that there was a major source of air, or any source of air, up the *inside* of the lower box into the Economizer, did they? A. I didn't consider it that way.

Q. And if that is a fact, then of course all of your calculations are completely destroyed, are they not?

A. If that is a fact, there is a question as to the path that that air took to get to the Economizer.

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<sup>3</sup>Point 5 was the outlet from Coleman's economizer.

Q. You could go much further than that, could you not—if the air you measured coming out at 5 went up both the inside and the outside of the box, you no more know from your test how much went up the outside of the box than you would know, looking at a roadful of traffic that had merged from two converging highways down the road, which came from one road or the other, would you? A. That's right.

Thus, in appraising Coleman's conduct for the purpose of determining whether exemplary damages are in order, the case is not one in which Coleman usurped and appropriated a substantial volume of infringing air, presumably of some value to its heater, but one in which it failed to eliminate totally a small leakage having no value (subsecs. 3 and 5 below). It is also one, as appears below, in which Coleman did not want the infringing air, sought to eliminate it, and did so except as limited by the propensity of air to leak.

### 3. The Infringing Air Was Actually of No Value to the Coleman Heater.

*Holly has at no time introduced evidence as to the effect of the infringing air upon the Coleman heater, but originally it was a reasonable assumption, and it was made, that such a quantity as was erroneously indicated by the Landsberg testimony must necessarily have affected the operation.*

Upon the contempt hearing in this case the true percentage of the infringing air was again shown, this time with conclusive proof that the original Landsberg computations were in error. But even then Holly offered no evidence that the leakage of 3.1% was of any utility to the Coleman heater. In rendering his decision on the contempt issue the trial judge, although recognizing the fact that

the original data was erroneous, concluded that a device (referred to in Part IV, below) employed by Coleman in an effort to comply with the decree while still disposing of its stock of heaters on hand, had reduced the volume of infringing air to one third of what it had been before. Having *assumed* that the original volume of infringing air had contributed to the efficiency of the Coleman heater, the Trial Court then assumed that one third of that quantity also affected the efficiency of the heater [R. 766] “and that therefore it constitutes an infringement.” Up to that time there had been no evidence at all from either side bearing upon the assumption made by the Trial Court. (Later evidence showed without contradiction that any such assumption was unwarranted—Part IV, and *infra*, this section).

The Court undoubtedly made the observation quoted below because of an admission of Holly’s counsel during the contempt hearing that there would not even be any infringement if there was a mere leakage which did not contribute to the efficiency of the heater:

The Court: Is it a fair statement of the testimony to say that the test is whether enough air from the pink area enters the Economizer to affect the efficiency of the heater in any material degree?

Mr. Christie (representing Holly): I think that is true, your Honor.

The Court: In other words, if a little air came in it didn’t make the heater heat any better, it didn’t affect, I can’t say actually affect the operation, I suppose, but perhaps the word is efficiency—

Mr. Christie: That is correct.

The Court: —it didn’t affect the efficiency of the heater, then that should be called *de minimis*, shouldn’t it?

Mr. Christie: Yes. [R. 710. “Pink” designated the infringing air and its source, R. 700, 766.]

One of the issues which the Court could properly have considered upon the accounting trial was the value of the use of the infringing air to Coleman, particularly in the determination of a reasonable royalty. *The evidence showed conclusively, and was not disputed, that the infringing air was of no utility whatsoever to the Coleman heater.* It affected neither the efficiency of the heater nor the wall temperatures [R. 1504-1515, 1579-1581].

4. The Importance of the Use of the Infringing Air in the Heater Combination Patented by Holly.

Coleman concedes, as it must in view of the prior adjudication in this case, that the claims of Holly's patent cover a novel combination of elements. In connection with the accounting for damages, however, it is important to keep in mind the fact that the vital feature of the Holly heater combination is the use of lower wall space air in the secondary heater or economizer.

Holly originally attempted to obtain a patent covering the use of *economizers* in gas wall heaters, without regard to whether air from the lower wall space was passed into them [R. 1772-1778, Exs. A and B at original trial].<sup>4</sup> These broad claims, however, were rejected by the Patent Office. The record of the prosecution of the Hollingsworth patent [Continuation File Wrapper, Ex. B at original trial]<sup>4</sup> shows that the patent was allowed only after all of the claims were amended to specify that the *economizer* received all of its air from the *wall space around the lower heater*.<sup>5</sup> In the Holly heater combination, as

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<sup>4</sup>These exhibits are designated as part of the record on appeal [R. 2014] but were not printed, pursuant to stipulation [R. 2019].

<sup>5</sup>Claim I of the patent as issued, from which all of the other claims depend, requires that the "second hollow box" (the economizer) be related to the "first box" (the primary heater) by "having an inlet opening adjacent to the bottom thereof to receive air flowing upward outside of the first box inside of the wall."



described in the Hollingsworth patent, 100% of the economizer air comes from this source.

Hollingsworth represented to the Patent Office in unequivocal terms that an essential feature of his heater, which was responsible for its improved performance, was the use of lower wall space air in the economizer. According to Hollingsworth this principle of operation made both the lower and upper walls cooler than they otherwise would be, while at the same time improving the overall efficiency of the heater [Hollingsworth Patent, col. 4, lines 30-53, Ex. 1 at original trial, Orig. R. 741-746]:

“By drawing the cold air up around the sides or the back, or both, of the lower box, the neighboring wall surfaces are cooled and more fuel may be burned safely without attaining excessive lower wall temperatures. Hence the heating capacity of the apparatus is increased. Moreover, the air for the upper heat exchange, because it is drawn from a low level has a lower temperature, so that the heat transfer from the upper radiator is increased. In this way the amount of heat imparted to the air passed through the upper box (i.e., in the conduit around the upper radiator) is increased, with a resulting improvement in over-all heating efficiency. Third, the use of cold or low level air as feed to the secondary heat exchanger makes it possible safely to encase this secondary heat exchanger in a combustible wall. Fourth, the structure of the invention is such that the hot air is brought out into the room at an intermediate level while cooler but still warm air is introduced into the upper part of the room near the ceiling, thus reducing stratification and increasing air circulation in the room.”

As will subsequently be developed in detail (subsec. 5, below), during the designing of the Coleman heater Coleman's engineers found it essential to depart completely

from the principle proposed by Hollingsworth. The fact is that the Coleman heater was designed to avoid the use of lower wall space air in the economizer, and this was done for good engineering reasons without regard to any attempt to evade the Hollingsworth patent [R. 1282-1283, testimony of Dean Olds, Holly's witness].

It certainly cannot be overlooked, and it appears to be of controlling importance in evaluating Coleman's good faith, that *the feature which Hollingsworth represented to the Patent Office as being primarily responsible for his new results was not intentionally used in the Coleman heaters at all* (subsec. 5, below).

**5. Coleman's Engineers Believed in Good Faith That They Were Not Using the Combination Covered by the Holly Patent.**

At the time the Coleman heater was developed the engineering executive primarily responsible for the design of the Coleman wall heaters was one Dean Olds, no longer with the Coleman Company but today a consultant for the Siegler Corporation with which Holly has merged. Harry Giwosky, the patentee of Coleman's patent 2,767,702 [Accounting Ex. B], was a design engineer on the project under Mr. Olds. Mr. Olds was called by Holly as a surprise witness [R. 1310] at the accounting trial.

The gist of his testimony upon his *direct* examination was that he formed the opinion that if Coleman placed its heater upon the market it would infringe the Holly patent and that he so advised the Coleman Company (Summary of Argument (d), above). Upon his cross-examination, however, this witness was confronted with letters which he had written to Coleman's patent counsel early in 1953. He thereupon admitted that he had changed his mind as to possible infringement after the file wrapper was obtained in August of 1952, which wrapper disclosed that Hollingsworth had based the patentability of his heater com-

bination upon the use of lower wall space air in the economizer, and conceded that he had then concluded that there was *no* infringement (R. 1271-1272).

Mr. Olds testified that the two letters which he had written to Coleman's patent counsel correctly reflected his state of mind [R. 1282]. These letters, written on letter-heads of the Coleman Company and addressed to Mr. Horace Dawson of Dawson, Tilton & Graham, 209 South LaSalle Street, Chicago 4, Illinois, were as follows [R. 1267-1271, emphasis added except as otherwise indicated]:

January 13, 1953

Dear Horace:

I am attaching a letter from James B. Christie, attorney representing Holly Manufacturing Company of Pasadena, which as you will note charges that we are infringing their patent No. 2,602,411.

I believe that you are familiar with this patent. Last August I asked you to obtain the file wrapper, and on August 28th you analyzed this file wrapper, pointing out the limitations which were required as a part of the claims by the Examiner before this patent was issued. Since you will want to review this again I am also returning the file wrapper for your information. In August of 1951 you ran a quick search to determine what art might exist on economizer devices of this type.

We are also sending you our complete file on the results of this search and ask that you return it when you have finished using it. *It is our feeling that we do not infringe the Holly patent.*

You will note that all claims contain limiting phrases, such as this, 'an inlet opening adjacent the bottom thereof and adapted to receive air flowing upward *outside the first box and inside the wall* [emphasis is Old's], and a flue connected to the top of the

second radiator.' This same limitation occurs in all of the claims, if my analysis is correct.

You will also note that in figure 1 of the drawing air is shown entering at floor level and being carried upward outside the first casing, and so on up into the heat exchanger proper or second casing and radiator. From the engineering point of view this is rather peculiar. *We found it advisable to shut off as much as possible this air which rises around the lower casing.* The reason was that as the air rose along the casing it became heated. This air then was discharged into the second or upper casing or economizer and created additional temperature problems on the upper unit. For that reason we provided the casing on those units which use an economizer with a series of louvres at the top of the front of the casing. This is illustrated in a drawing which I am also attaching.

*Furthermore, we provide a baffle which is bent outward against the two by four frame, so that air rising between the casing and the two by four frame is stopped. The name of this baffle, as you will note, is the air stopper.* The air being stopped from rising, then, beyond the top of the lower casing is discharged out of the side louvres to which I have referred.

I always feel that some background history may be of help to the attorney in analyzing a problem of this kind. At the time of the introduction of the Holly unit which has the upper radiator or heat exchanger, AGA had not tested a device of that type. Apparently after some consultation it was decided that the unit would have to be of both the economizer and the lower unit as a package. Those tests apparently were not carefully conducted, for when we retested the unit under supposedly the same conditions, we found excessive wall temperatures to exist, espe-

cially just above the outlet of the second stage warm air discharge noted at 44, figure 1. Later this was substantiated by retests at AGA.

I think, then, that this may be the explanation of why *we found it necessary to stop the circulation of air from the bottom unit to the top unit, whereas Hollingsworth felt that this air was of advantage to him.* As a matter of fact, we found it necessary to go even farther. In order to cool down the wall temperature immediately above the point 44 we found it necessary to introduce through the top of the second stage grille a small amount of room air, which was then discharged upward and into the attic.

From this explanation you will see that the question of maintaining no more than a 90-degree rise at any point in the wall surrounding the heat exchanger unit is one which has caused considerable difficulty. *I believe that our discovery that it is necessary to stop the circulation of air from the lower unit to the upper unit is of real importance in determining whether or not we do infringe the claims of Hollingsworth.*

I would like to have you analyze the information which I am attaching to this letter and reply to Mr. James B. Christie. You will also be interested in the question of possible license. Frankly, I cannot give you a clear-cut answer to this one. You will recall that the purpose of your examination of the file wrapper in August of last year was that I intended to discuss this patent with Mr. Johnson, president of the Holly Company. My interview with Mr. Johnson was far from satisfactory. He did not seem to care to discuss the patent, explaining that he was not familiar with it. On the other hand, he had previously, in conversation with our Los Angeles manager, said that if a patent were granted they, Holly, would be interested in granting licenses to a



few reputable manufacturers. I am unable to account for the distinctly different attitude which he expressed at the time I was in Los Angeles. Therefore I am unable to suggest whether or not they are in a mood to grant a license.

*Furthermore, in view of the fact that I feel that we definitely do not infringe, and certainly would not care to build our units in the manner described in the patent, I do not believe that we would be willing to pay any very excessive royalty. On the other hand, as you would judge, the Coleman Company has every interest in recognizing a legitimate patent and would rather support patents than to attempt to destroy them. This, then, is about the situation as I see it. I think we should prepare for suit.*

Quite naturally, however, a great deal of our future thinking will be governed very strongly by your opinion.

Sincerely yours, Dean, The Coleman Company, Inc.

The second letter was [R. 1279-1282, emphasis added except as otherwise indicated]:

March 23, 1953

Dear Horace:

I have read Mr. Christie's letter of March 3 relative to the question of our infringement of the Holly patent. In this morning's mail I also received another letter, a copy of which I am attaching, and which I think you will find quite interesting.

First, to discuss the questions raised by Mr. Christie. It is true that we have two ribs on the back of our casing. Hence it could be claimed that we have automatically provided a channel for the circulation of air from floor level around what the patent terms the lower box and up into the top box. To me,

however, this is a matter of degree. *It is not in my opinion necessary to assure an air tight joint in order to distinguish from the claims of the Hollingsworth patent.*

For example, column 3, line 12 beginning as follows: 'Air from floor level in the room is passed upward through *a separate conduit* [Old's own emphasis] into the bottom of the upper box in which the second radiator is disposed. Preferably this second conduit is disposed around the side or back or both of the lower box.' Again in column 6, line 59, 'Cold air, say at about 70° passes up from the floor level to the box surrounding the second radiator through the wall and in passing to the upper louver (of the secondary heat exchanger) adjacent the ceiling attains a temperature of 165° at which temperature it is discharged.

Both of these quotations clearly point out the intent to have a substantial circulation of air. In fact, it is quite evident that the intent is that air discharged from the upper grill in reality enters originally at floor level. Certainly then it is evident that this is not simply a matter of leakage. So, it would appear to me that Mr. Christie is attempting to expand the claims by interpretation to a point which it seems to me is not logical in view of the description.

It is however true that if we were, for example, to introduce smoke at floor level in a Coleman heater installed in a wall some of that smoke would ultimately reach the heat exchanger. Actually the ribs on the back of the casing are intended to keep the casing from actually contacting combustible material. They do not in all cases provide a fixed space for you must remember that they are adjacent to a plastered wall. Thus it is thoroughly possible that any circulation might be effectively cut off by plastered knobs

which project through the lathe or plaster base. In the case of installation in a plaster board wall this would not be true and there would be an air passage equivalent in width to the thickness of the ribs.

*On the other hand, and this is definitely the truth of our situation, we prefer to take cooler air directly from the room through the louvers in the side of the casing near the top. We need that cooler air to help cool the secondary heat exchanger. Air which enters at floor level and is carried up the height of the heater is of course heated in the process. Hence, we have found it is not as effective in cooling the secondary heat exchanger. Frankly it seems to me that this is a matter of degree. Certainly Holly could prove that some circulation does exist. Unfortunately I do not see how we could very effectively block or seal against that slight amount of circulation.*

We can try a baffle at the top of the casing at the back to see what it will do. However, this may be difficult for American Gas Association tests covering wall temperatures surrounding the unit are extremely difficult to meet. Therefore, even a slight change of this kind might throw us over the allowable 90° rise.

Relative to the baffles at the side of the casing we are in agreement that these should be bent out before the units leave the factory and a change has been issued to provide for bending them out so that they will contact the 2 x 4's. *This is being done not so much to avoid the question of infringement but to actually accomplish shutting off the rising warm air so that the entering colder air from the side louvers will be more effective.*

The letter from Metalbestos and the attached folder which you will note is dated 1949 is rather interesting. As you will note in the middle illustration they

at that time were recommending a grill. Whether warm air therefore issued from this grill or whether room air would enter it is of course a question. However, there is the possibility that this is anticipation. The question of whether or not the patent is invalid because of being credited to the wrong inventor is also worth further investigation in my opinion.

If the story told in the Metalbestos letter is correct then of course we would have a question of validity. After you have read this material I will be glad to hear from you further.

Sincerely yours,

Dean, THE COLEMAN COMPANY, INC.

These letters are set out in their entirety in this brief because they show conclusively that The Coleman Company had no desire to use a combination wherein the economizer was supplied with air from the lower wall spaces, that in fact it found such air highly objectionable and made every effort short of hermetically sealing it off to eliminate it entirely, and that it succeeded in eliminating such air except for a leakage due to the nature of air.

We believe it is obvious from the foregoing, without reference to the other circumstances referred to below, that Coleman did act in complete good faith as found by the Special Master, and that the finding of bad faith made by the Trial Court has no evidence or inference to support it. Certainly Coleman's refusal to admit an infringement was never "consciously wrongful." Apparently even the trial judge, as late as the final argument herein, recognized Coleman's sincerity, for he then said to Holly's counsel:

"I don't apprehend that the defendant will ever be anything but unreconstructed on this question of infringement. It will still, as a defendant has a right to do, it will still believe that the decision against him is wrong in fact, if not in law." [R. 1998.]



6. Coleman's Conclusion That It Did Not Infringe Was Based Upon Its Knowledge of the Actual Nature of the Heater and Not Upon the Mistaken Testimony Introduced by Holly and Accepted by the Court.

It is of course obvious that when Coleman reached the foregoing conclusion, it did so with its engineers' knowledge of the actual function of its heater and not upon Holly's erroneous evidence as to its nature later received and believed during the original trial. It could not foresee that Holly would claim, or that a Court would believe, that the infringing air in the economizer was many times its true volume. In designing the heater Coleman's engineers knew, as shown by the above letters of Olds, that in the Coleman heater the economizer was designed to operate not with infringing air, but with air received directly from the room, and that any air reaching the economizer from the lower wall spaces was an inconsequential and unwanted leakage which could have no beneficial effect on the operation of the heater.

7. Coleman Was Advised by Its Patent Attorney That There Was No Infringement.

Horace Dawson of the Chicago Bar, an attorney specializing in patent work [R. 777], was Coleman's patent counselor in the development of the heater in question. He testified [R. 779]:

"We advised Coleman that in our opinion there was no infringement because the Coleman structure employed what we felt was a different mode of operation. Under decisions of the Supreme Court and Federal Courts it has been held that where a structure, even though it were to fall nominally or literally under a claim, if it has a different mode or principle of operation there is no infringement. And in our view the taking of air from the room itself directly was a different mode—into the economizer was a



different operation from that called for in the Holly patent, where 100 per cent of the air was taken in at the bottom of the lower heater and drawn up around the casing and then into the economizer.”

In its Finding XXIII [R. 430] the Court found “Coleman represented to Holly that it was redesigning its heaters to avoid infringement by preventing the flow of air into the economizer from the conduit provided between the lower box and the wall, but Coleman’s redesigned heaters did not prevent such flow of air.” This finding is based upon a letter written by Horace Dawson to counsel for Holly, which appears in the record [Orig. R. 514-515].

But the finding misconstrues the letter. It is true that the letter states [Orig. R. 514]: “None of the air from about the lower box is thus able to enter the upper box 10.” But it closes with the following, after reference to a device known as a Metalbestos wall heater vent assembly: “We call this structure to your attention because your client has been concerned with the fact that a trace of air may lead past any barrier placed in the studding space and find its way into the upper box. A studding space, with the rough plaster therein, is, of course, difficult to seal, and in the prior Metalbestos installations, it is found that a small amount of air passes upwardly around the barrier and into the second box” [Orig. R. 515].

It is clear that Dawson, as he confirmed in his testimony, did not commit Coleman to hermetically sealing heaters against minor leakage, but instead referred to leakage occurring in another device [R. 788-789]. It is also reasonable to assume that Holly would not have been much concerned had it realized that there was a mere leakage for, as noted above, the Mr. Christie to whom the foregoing letter was addressed, representing Holly upon the contempt hearing, stated that if there was a mere leakage the rule *de minimis* would apply [R. 710].

(In calling attention to this admission we are not suggesting that Holly did not bring this action in good faith. Obviously it believed in the truth of the testimony of Mr. Landsberg offered at the original trial and did not then realize that only a leakage was involved. Had that fact been understood at the start there undoubtedly would never have been a lawsuit. Nevertheless Holly was responsible for its own evidence and Coleman, from beginning to the end, showed correctly what the amount of leakage was [Orig. R. 395, 406]. Unfortunately it did not make its conclusive demonstration of the truth of this testimony until the accounting issue was tried and the Trial Court had already been misled on the infringement issue.)

When Dawson advised Coleman that in his opinion there was no infringement, he was fully aware of the possibility of leakage. Olds had so advised him (letter of March 23, 1953, above in Sub-section 5, fifth paragraph, wherein the economizer is referred to as the "heat exchanger"). Dawson testified that when he wrote the letter to Holly he had in mind the "possibility of some air leakage from around the lower box into the economizer" [R. 789].

The fact that Coleman acted upon the advice of competent patent counsel is obviously a compelling circumstance in establishing good faith: See *Artmoore Co. v. Dayless Mfg. Co., Inc.*, 208 F. 2d 1, 6 (7th Cir., 1953); *University of Illinois Foundation v. Block Drug Co.*, 133 Fed. Supp. 580, 591 (E. D. Ill., 1955). Patent infringement is a matter requiring expert opinion, and all that any company can do in such a situation is to seek such opinion. As aptly observed by Judge Learned Hand:

"Patent infringement often involves nice and casuistical questions which it is mere artifice to treat as involving moral delinquency." (*Cincinnati Car Co. v. New York Rapid Transit Corp.*, 66 F. 2d 592, 593: 2nd Cir., 1933.)

8. The Fact That Coleman Developed and Patented Its Own Heater Design Creates a Presumption of Good Faith.

At the time of the original trial, Coleman had applied for its own patent (the Giwosky Patent), which has since been issued [Accounting Ex. B]. In the Giwosky heater combination the economizer is *not* designed to take its air from the lower wall spaces [R. 1595-1596]. Instead, the economizer is supplied with air directly from the room, which is the principle upon which the Coleman heaters were constructed [R. 1595-1596, 1614-1615].

The fact that one has operated under his own design and patent creates a strong presumption of good faith:

*Corning v. Burden*, 56 U. S. (15 How.) 252, 272 (1853);

*Creagmile v. John Bean Mfg. Co.*, 32 Fed. Supp. 646, 648-649 (S. D. Cal., 1940)—patent held invalid on appeal, 123 F. 2d 182.

As said by the Supreme Court in *Corning v. Burden* 56 U. S. at page 271:

“It shows, at least, that the defendant has acted in good faith, and is not a wanton infringer of the plaintiff’s rights, and ought not therefore to be subjected to the same stringent and harsh rule of damages which might be justly inflicted on a mere pirate.”

In the *Creagmile* case on the same issue of the infringer’s good faith it is said (p. 649):

“The record before us indicates that the defendants’ devices, exhibits 7 and 8, while well within the claims of the Creagmile invention, are also claimed by defendants to have been manufactured under the disclosure of a subsequent patent issued to Morse & Phillips, assignors of defendant Food Machinery Corporation, on November 17, 1936, being No. 2,061,326. *This showing is, we think, in itself*

*sufficient to negative any bad faith in the infringing acts of the defendants so as to preclude any right of plaintiffs to recover aggravated damages in this action.”* (Emphasis added.)

(It should be noted, however, that the same Trial Court as in this case has granted *summary* judgment, in favor of the company with which Holly has merged, invalidating one of the two claims of the Giwosky patent. That judgment is currently on appeal before this Court, No. 16154).

#### 9. Coleman Did Not Fail to “Exercise Due Care.”

In Finding XXIV [R. 431] the Trial Court states that Coleman “did not exercise due care to ascertain whether or not it was infringing plaintiff’s patent.” The respects in which Coleman was found to be negligent are not specified. Obviously the record does not support such a finding, nor does the relevancy of such a finding appear. We presume that the Trial Court did not undertake to award exemplary damages and attorneys’ fees against Coleman upon a finding that it was merely negligent, but that such finding was an elaboration of the preceding part of Finding XXIV in which Coleman’s infringement is declared to be “willful and deliberate.”

Coleman’s engineers knew the actual facts concerning the Coleman heater (Sub-section 5 above). Coleman’s patent counsel was informed of these facts by Mr. Olds and advised Coleman that in his opinion there was no infringement of the patent (Sub-section 7, above). There is nothing in the record to suggest that Coleman failed to exercise reasonable care in determining whether or not it infringed the Holly patent. There must have been room for an honest manufacturer in Coleman’s position to doubt, in good faith, that it infringed the Holly patent, for in referring to the original trial of this action the trial judge later said [R. 764]: “I could say to Mr. Lyon that

I don't see how, with all due respect to Judge Bone, for whom I have the highest regard and respect, how he could affirm this case and reverse the Kemart case, both of which were my cases. I think the infringement in the Kemart case was even more demonstrable than the infringement in this case."

It is clear from the contemporaneous writing of Mr. Olds that he was convinced, and for excellent reason, that there was no infringement.

**10. The Original Adjudication of Infringement Does Not Establish Bad Faith.**

It has been adjudicated, upon the mistaken evidence heretofore referred to, that Coleman intentionally infringed the Holly patent. This subject has already been rather fully discussed in Sub-section 2 of this Part, above, and in Summary of Argument paragraph (a). But the question of good or bad faith was perforce not involved in the original infringement trial and was not relevant thereto. In fact, the trial judge himself acknowledged that the issue of Coleman's good faith had not yet been presented for decision even as late as the subsequent contempt hearing [R. 765, 1938-1939]. Thus, the law of the case has not yet been made upon this issue.

The law of the case cannot be made when the question on the second appeal was not involved on the first appeal, and is only made when the questions involved in both appeals are substantially the same:

*County of San Diego v. Milotz*, 46 Cal. 2d 761, 768, 300 P. 2d 1 (1956);

*Chicago & N. W. Ry. Co. v. Kelly*, 84 F. 2d 569, 571 (8th Cir., 1936);

*Seagraves v. Wallace*, 69 F. 2d 163, 164 (5th Cir., 1934), cert. den. 296 U. S. 569;

See *United States v. Morgan*, 307 U. S. 183, 188.



In *Seagraves v. Wallace*, 69 F. 2d at page 164, the Court said: “. . . only the questions in terms discussed and decided are within that principle.”

Accord: *Wolff Packing Co. v. Court of Industrial Relations* 267 U. S. 552 (1925).

In *Chicago & N. W. Ry. Co. v. Kelly*, 85 F. 2d at page 571, the Court wrote:

“In so far as the questions arising upon this second appeal are substantially the same as those presented on the first, they are ruled by our former opinion.”

As said by the Supreme Court of California in *County of San Diego v. Milotz*, 46 Cal. 2d at page 768:

“Where different questions arise on the second appeal and the record presents a new consideration affecting the disposition of the later appeal, the former observations have no binding force and the second appeal must be determined on the merits of the issues then submitted.”

In that case, upon a prior appeal it had been declared by the appellate court that the plaintiff's suit was not one to recover a penalty. This comment was made *apropos* of the defendant's contention that the plaintiff should not be permitted to recover because the law does not favor penalties. But after the first decision on appeal, an answer was filed in which the defendant pleaded the statute of limitations applicable to the recovery of penalties. It was held that this was a different issue, squarely presenting for the first time the question as to the nature of the plaintiff's claim, and the law of the case did not apply.

Furthermore the law of the case never applies when the evidence received after the first appeal is substantially different and not merely cumulative:

*Page v. Arkansas Natural Gas Corp.*, 53 F. 2d 27, 31-32 (8th Cir., 1931), affirmed, 286 U. S. 269;

*General Motors Acceptance Corp. v. Mid-West Chevrolet Co.*, 74 F. 2d 286, 388 (10th Cir., 1934);

*New York Life Ins. Co. v. Golightly*, 94 F. 2d 316, 317 (8th Cir., 1938), cert. den. 304 U. S. 566.

The evidence before the Trial Court on the accounting trial was not only different from the evidence received at the original trial, but evidence of good or bad faith was not even relevant at the time the infringement issue was tried.

The law of the case is never followed if it would work manifest injustice:

*County of San Diego v. Milotz*, 46 Cal. 2d 761, 767-768, 300 P. 2d (1956);

*Chicago, St. P. M. & O. Ry. Co. v. Kulp*, 102 F. 2d 352, 354 (8th Cir., 1939), cert. den. 301 U. S. 700.

Even when the law of the case does apply, it is not "an unyielding one which takes from the court the power to correct manifest error or plain mistake of a serious nature and bearing in the previous decision": *State of Kansas v. Occidental Life Ins. Co.*, 95 F. 2d 935, 936 (10th Cir., 1938), cert. den. 305 U. S. 603. See also *Messenger v. Anderson*, 225 U. S. 436, 444 (1912) and *Commercial Nat. Bank, etc. v. Connolly*, 176 F. 2d 1004, 1006 (5th Cir., 1949).

The case of *Rockwood v. General Fire Extinguisher Co.*, 8 F. 2d 682 (2nd Cir., 1925), is of considerable interest in applying these principles to this same question. On the first appeal the finding of the Trial Court that the defendant "had copied the [plaintiff's] idea" and "succeeded in appropriating all that was of value in plaintiff's device," was affirmed (8 F. 2d 682, 688). Upon trial of the accounting issue, the Trial Court awarded punitive damages of 25%, as in the case at bar. This award was annulled on appeal, the Appellate Court stating (37 F. 2d 62, 66):

"Punitive damages should not have been awarded by the court below. The infringement was not wanton and deliberate. The validity of the patent and its infringement was open to honest doubt, and it was not until this court passed upon the question that the defendants were found to infringe. In the absence of a deliberate purpose to infringe, no such punitive damages should have been granted [citing cases]."

Infringement in the present case was not only "open to honest doubt" but was found only upon mistaken evidence. In the light of the actual facts Coleman not only could doubt that there was infringement, but actually had no reason to suspect that there was. The unfortunate aspect of this case is that Holly accused without knowing the facts, and Coleman resisted without knowledge of Holly's mistake, wherefore this litigation. It is impossible to find in the record anything to support an inference that Coleman infringed Holly's patent in bad faith. On the contrary, however, all of the evidence shows that Coleman acted with all due diligence and with utmost good faith.

IV.

**The Adjudication That Coleman's Modified Heater Infringed Is Contrary to the Evidence and Was Improper on a Motion for Contempt.**

In paragraph 4 of the judgment [R. 435], Coleman was found guilty of civil contempt for failing to comply with an injunction served upon it on December 28, 1956, enjoining it from selling the infringing heaters.

Commencing about July 15, 1956, Coleman modified its heaters by providing them with an attachment referred to as a "chute" [R. 476-477], which was designed to eliminate leakage of the infringing air altogether and which did reduce it appreciably [R. 627-631]. This was done in order to permit the disposition of the stock of old heaters without violating the injunction, preparatory to and while bringing out Coleman's new type of non-infringing heaters [R. 1604-1605].

The effect of the chute was to reduce the amount of infringing air to approximately one-third of what it was without the chute. The Trial Court so found upon the contempt hearing [R. 766]. The "pink" referred to by the Trial Court was the designation used for infringing air [R. 700, 766]. No evidence offered in either the contempt or the accounting trial contradicted the fact that the chute reduced the infringing air to one-third of its volume without the chute, or to approximately 1.3% [R. 1593-1594].

The question before the Trial Court at the time of the contempt hearing was whether Coleman infringed Holly's patent by permitting approximately 1% of the air in its economizer to escape from the back wall spaces, and whether it stood in contempt of the Court in selling heaters so modified. That this was the issue was conceded by Holly and recognized by the Trial Court. As already noted (Part III(3)), Holly's counsel agreed that if not enough

of the wall space air entered the economizer of the modified heater to "affect the efficiency of the heater" then that "should be called *de minimis*" [R. 710]. The trial judge, in rendering his decision upon the contempt hearing, said: "The test here, as suggested this morning, seems to me to be whether enough air enters the Economizer from the pink or infringing area to affect materially the efficiency of the heater" [R. 766].

Obviously if the modified heater did not infringe the patent, it could not violate the injunction and Coleman could not be in contempt. As the Court said in *Wadsworth Electric Mfg. Co. v. Westinghouse Electric & Mfg. Co.*, 71 F. 2d 850, 852 (6th Cir., 1934): "We think it clear that the only issue presented by this appeal is whether the defendant's modified structures infringe the patent claims, and whether their manufacture violates the writ of injunction, . . . ."

Clearly, unless the lower wall space air, the use of 100% of which in Holly's economizer was the essential feature of Holly's patent (Part III(4) of this brief), made some material contribution to Coleman's modified heater, that heater necessarily functioned upon a different principle and there was no infringement, as conceded by Holly upon the contempt hearing. Nevertheless, at the contempt hearing (as well as during the accounting trial) Holly introduced no evidence that lower wall space air had any effect upon the Coleman heater with the chute installed. [Upon the accounting trial it was proved without contradiction that it had no effect R. 1514.] The Trial Court nevertheless *assumed*, without evidence, that the efficiency of the heater was affected. It was an extraordinary assumption. Immediately following the statement of the trial judge quoted above (that the test was whether the efficiency of the heater was materially affected), he said:



“Without the chute in it is adjudicated that it does. The best estimate I can make . . . indicates that the chute cuts off two-thirds, say two-thirds, of the air to the Economizer from the pink area. I must find that the elimination of two-thirds of the air from the pink area still leaves the air from the pink area *materially affecting the efficiency of the heater*, and that therefore it constitutes an infringement” [R. 766, emphasis added].

This conclusion is the very foundation of the finding of contempt but is without any support in the evidence whatsoever. Holly cannot point to anything in the record justifying even an inference to that effect. The burden was upon Holly to prove that the *modified heater* infringed the patent. The mere assumption of the Trial Court that the minute volume of wall space air affected the heater was not only without evidentiary support but involves a curious *non-sequitur*.

The Trial Court’s reasoning was that since (1) it had once determined, although upon mistaken evidence, that there was at least 23% of infringing air in the economizer, and (2) that such a large volume must have affected the heater, *ergo* (3) one-third of *that* amount must also have affected the heater although it was not there. But the premise was then known to be wrong; there was never such a volume of infringing air. While the principle giving finality to a judgment may have made it impossible to redetermine the question whether the original heater infringed, it did not perpetuate the factual error or dispense with the requirement of proof when a new question was before the Court, namely, whether the *modified* heater infringed. There was no other basis for the conclusion that the modified heater infringed and the judgment of contempt is therefore without support.

The judgment of contempt also violated a well established procedural rule. Process for contempt is not proper when there is "fair ground of doubt" whether a device accused of violating an injunction is an infringing one:

*American Foundry & Mfg. Co. v. Josam Mfg. Co.*,  
79 F. 2d 116, 118-119 (8th Cir., 1935);

*Radio Corporation of America v. Cable Tube Corp.*,  
66 F. 2d 778, 783 (2nd Cir., 1933);

*California Artificial Stone Pavement Co. v. Moliter*,  
113 U. S. 609, 618 (1885);

*General Electric v. Wabash Appliance Corp.*, 29  
Fed. Supp. 1003, 1004 (E. D. N. Y., 1939).

As stated in the *American Foundry* case, 79 F. 2d at page 119:

" . . . the inquiry here is whether or not there is a 'fair ground of doubt' as to infringement by the 1933 device of appellant—if there is such, there can be no punishment for contempt, but appellee must proceed by supplemental or original bill for infringement."

To the same effect is the *Radio Corporation* case, 66 F. 2d, at page 783:

"But where the infringement by the new device is not clear on the fact of the matter, and there are substantial issues for the determination of the Court, the plaintiff may not have them determined in contempt proceedings, but must bring a supplemental bill for an injunction covering the new device, or institute a wholly new suit for such an injunction. (Citing cases.)"

As applied in the foregoing cases, the basic rule governing the plaintiff's burden in a motion for civil contempt

in a patent infringement case was long ago laid down by the Supreme Court in the *California Artificial Stone* case, cited above, where the Court held (p. 618):

“Process for contempt is a severe remedy and should not be resorted to where there is fair ground of doubt as to the wrongfulness of defendant’s conduct.”

It is indeed a mild statement to say that in this case there was “fair ground for doubt” whether the modified heater infringed. There was no evidence that it did infringe. Holly offered no evidence on the issue, and it was not tried. On the accounting trial, relative to the issue of reasonable royalty, it was shown without contradiction that the leakage of wall space air had no effect on the heater’s operation with the chute installed, or without it—[R. 1514].

The Court not only found Coleman to be in contempt, but awarded punitive damages. This required proof of bad faith (Part III, above).

The whole question of Coleman’s good or bad faith has been discussed in Part III of this brief, to which reference is here made. The Coleman heater was designed to take its economizer air directly from the room into the economizer, not from the wall spaces. This so materially differed from the Holly heater that a patent issued upon it. Coleman’s engineers believed, with excellent reason, that there was no infringement (Part III(5), above). If there was no bad faith when the original heater was designed, there was certainly none when Coleman reduced the already inconsiderable 3.1% of wall space air to one-third thereof.

Furthermore, Coleman was advised by its patent counsel that in his opinion the heater, modified by the chute, did not infringe [R. 690-692]. This was indirectly substantiated by Holly at the contempt trial. Alwin B. Newton, Coleman's Vice-president, who gave this testimony, testified that Holly representatives, including Holly's counsel, were present at a time before the chute was actually used, when this was discussed. Holly's counsel stated that he was prepared to testify that all that was said on this subject at the meeting was that Coleman's counsel had advised that there was no infringement [R. 696]. It is submitted that this important fact, together with Holly's failure to prove that the modified heater did in fact infringe, precluded a lawful finding of either infringement or bad faith.

Even in cases where the device attacked so clearly infringes that it can be adjudicated as an infringement on motion for contempt, the damages awarded should be compensatory only unless the evidence establishes that the defendant was acting in bad faith. (See *Union Tool Co. v. United States*, 262 Fed. 431, 434, 9th Cir., 1920).

In the present case the Court has awarded punitive damages of more than three times Coleman's profits from "contempt sales." It is submitted that there is no evidence which can support the award of punitive damages in the contempt proceeding.

The effect of the final judgment is to award Holly damages of \$124,491.05 plus attorneys' fees of \$9,269.77 on the total contempt sales of \$182,851.00. Apparently this total is greater than was actually intended by the Trial Court. The Court's Finding XXV [R. 431] states

that Holly's lost profits damages on sales of \$182,851.00 made after the injunction had become final "should be increased by three times." The amount actually awarded, however, comes to 3 and 7/12 times the lost profits on the contempt sales at the 19% profit rate of Holly, and is thus incompatible with the Court's own finding. The extra 7/12 amounts to \$20,265.98<sup>6</sup>

For all of the reasons set out above, it is respectfully submitted that the holding of contempt should be reversed.

## V.

### **The Facts of This Case Permit Only the Reasonable Royalty Approach to the Damage Issue, and the Record Enables This Court to Fix a Reasonable Royalty.**

Since Holly and Coleman were at all time in direct competition with other manufacturers of wall heaters, and since there was no specific and segregated demand for Holly's particular heater, so that Holly's losses, if any, could not be equated with Coleman's sales, the facts of this case permitted only the reasonable royalty approach to the damage issue. Coleman, of course, concedes that Holly could have elected to claim a reasonable royalty because of the adjudication of infringement and the provisions of

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<sup>6</sup>Paragraph 5(d) of the judgment [R. 436] gives added damages of \$69,483.38, which in itself is consistent with Finding XXV, since the lost profits damages on the contempt sales were included once in the total of \$1,450,661.78 of paragraph 5(a) of the judgment. The 7/12 error arises because the total lost profits damages were increased by  $\frac{1}{3}$  plus  $\frac{1}{4}$ , making a total of a 7/12 increase, in arriving at the figures of \$483,552.93 and \$362,665.45, respectively, of judgment paragraphs 5(b) and 5(c). Since paragraphs 5(a) and 5(d) together apply the 19% rate three times to the total contempt sales, \$11,580.56 should be deducted from the figure under 5(b) of \$483,553.93 to give \$471,973.37, and \$8,685.42 should be deducted from the figure of \$362,665.45 under 5(c) to give \$353,980.03. The deductions of \$11,580.56 and \$8,685.42 combined make up the 7/12 excess of \$20,265.98.



the Patent Act of 1952 (35 U. S. C., Sec. 284). This Act reads in part: "Upon finding for the claimant the court shall award the claimant damages adequate to compensation for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."

The present patent damage statute is a codification of a 1946 amendment to an earlier statute (Rev. Statute, Sec. 4921, which provided that: ". . . upon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the *profits* to be accounted for by the defendant, the *damages* the complainant has sustained thereby, . . .;," emphasis added). It is clear since the 1946 revision of the statute that, so far as *damages* are concerned, a patent owner can now claim as a matter of right only his actual, provable damages as distinguished from the infringer's profits, and and that the infringer's profits can be reached only by proving that they were an element of the damage actually sustained. This would of course require definite proof, totally absent on the present record, that Holly would have made Coleman's sales. The 1946 amendment has been expressly so interpreted (*Ric-Wil Co. v. E. B. Kaiser Co.*; 179 F. 2d 401, 7th Cir., 1950).

This Court has referred with approval to the interpretation of the patent statute damage provisions as set forth in the *Ric-Wil* case (*Faulkner v. Gibbs*, 199 F. 2d 635, 638, footnote 5, 9th Cir., 1952).

It is apparent that the present case is not one in which actual damage was provable, and certainly not one in which actual damage was proved (Part I). Therefore an award of a reasonable royalty was the proper and only standard of compensation. This is the usual situation in patent infringement cases and is the reason why patent owners are given a right to a reasonable royalty. Otherwise a

patent owner would in most cases receive only injunctive relief.

The whole subject of reasonable royalty was thoroughly discussed by this Court in *Faulkner v. Gibbs*, *supra*. As there stated by this Court, when there is no established royalty various factors are to be considered in fixing the amount of a reasonable royalty (199 F. 2d, at page 639):

“Where no established royalty can be proved, it is permissible to show *the value of what has been taken by the infringement* by proving what would have been a reasonable royalty, considering the nature of the invention, *its utility and advantages, and the extent of the use involved*. What is a reasonable royalty is a question of fact. A reasonable royalty is an amount which a person, desiring to use a patented article, as a business proposition, would be willing to pay as a royalty and yet be able to use the patented article at a reasonable profit. The primary inquiry, often complicated by secondary ones, is what the parties would have agreed upon, if both were reasonably trying to reach an agreement.” (Emphasis added.)

In this case there was no established royalty, Holly not having granted any licenses. In their briefs below, Holly’s counsel repeatedly argued that this fact prevents the fixing of a reasonable royalty, and that since Holly was in fact unwilling to grant a license, to award a reasonable royalty would amount to “compulsory licensing.” This specious argument apparently confused both the Special Master and the Trial Court. The Special Master said in his Report (p. 5): “It is difficult in retrospect to determine a reasonable royalty. Defendant contends the standard provided by law is the willing-buyer—willing-seller rule. In this case there was neither a willing licensee nor a willing

licensor.” Only upon Coleman’s request for a further finding did the Special Master fix a reasonable royalty, as noted below. The Trial Court took only the actual damage approach to the damage issue.

It is, of course, essential to *assume* the existence of a *willing* licensor and a *willing* licensee. As stated in *Horvath v. McCord Radiator & Mfg. Co.*, 100 F. 2d 326 at page 335 (6th Cir., 1938):

“In fixing damages on a royalty basis against an infringer, the sum should be reasonable and that which would be accepted by a prudent licensee *who wishes to obtain the license* but who was not so compelled and a prudent patentee, *who wished to grant a license* but who was not compelled. In other words, the sum allowed should be that amount which a person desiring to use a patented machine and sell its product at a reasonable profit would be willing to pay.” (Emphasis added.)

This Court approved and followed the foregoing statement in *Faulkner v. Gibbs*, 199 F. 2d 635, 639 (9th Cir., 1952).

Holly’s view finds no support in any known decision. If an award of reasonable royalty requires an admission by the patent owner that he would have sold a license, the courts would often be paralyzed on the threshold. It has been established for many years that a reasonable royalty may be judicially determined although the patent owner has never actually granted a license and has held his patent as a close monopoly. One of the leading cases to this effect is *Dowagiac Mfg. Co. v. Minnestota Moline Power Co.*, 235 U. S. 641, 648 (1915), wherein it is said:

“But, as the patent had been kept a close monopoly, there was no established royalty. In that situation it was permissible to show the value by proving what would have been a reasonable royalty, considering the

nature of the invention, its utility and advantages, and the extent of the use involved. Not improbably such proof was more difficult to produce, but it was quite as admissible as that of an established royalty."

Upon Coleman's request for further findings, the Special Master fixed a reasonable royalty as 6% of Coleman's "net" sales [R. 51-52, 61-62]. The "net" figure is the same as Coleman's total accountable sales as found by the Court in Finding XIII, or \$7,635,062.00 [R. 426]. Six percent of this figure will be found to be the \$458,103.72 declared by the Special Master to be 6% of defendant's "net" sales [R. 51-52]. It should be noted that this sales figure of \$7,635,062.00 includes contempt sales of \$182,851.00. If the contempt sales are treated separately, Coleman's total accountable sales here are \$7,452,211.00 and a 6% royalty thereon would be \$447,132.66.

A reasonable royalty must be one which would permit a licensee to use the patent with a reasonable profit. As said by this Court in *Faulkner v. Gibbs*, 199 F. 2d 635, 639 (9th Cir., 1952):

"A reasonable royalty is an amount which a person, desiring to use a patented article as a business proposition, would be willing to pay as a royalty and yet be able to use the patented article at a reasonable profit."

Another decision of this Court to the same effect is *Dunkley Co. v. Central California Canneries* 7 F. 2d 972, 977 (9th Cir., 1925).

The Special Master related a 6% royalty to a reasonable profit by assuming that Coleman *should have* made Holly's alleged but unproved and fictitious 19% margin of profit (Part I(3), above). On this basis Coleman's hypothetical profits would have amounted to \$1,450,661.78. Coleman's actual profits, as found by the Special Master, were \$785,-975.85 [R. 60].

The Trial Court, however, sustained *all* of Holly's objections to the accounting methods approved and accepted by the Special Master and computed Coleman's profits at \$1,186,537.27 [Finding XVIII, R. 428].

The basis for the Master's Finding II [Report of Special Master, R. 61-62] was:

"It (Holly) had offered to defendant's limited license on the basis of 4% of the net selling price to allow defendant to gracefully withdraw from the sale of the infringing heater which was refused. I think this was a generous offer and that a reasonable royalty, under the circumstances in this case, would be 6% of the net sales leaving defendant a profit of 13% of net sales *if it could make the same profit as plaintiff*. The lower profit shown by defendant must be attributable to other items manufactured by defendant the costs of which were charged in part to the infringing heaters. 6% of defendant's net sales would be \$458,103.72." [Emphasis added; R. 51-52].

The Trial Court, while attempting to award damages on the alleged basis of actual loss, adopted this finding [Finding XXIX, R. 432]:

"To the extent not inconsistent with these Findings of Fact, the facts as found by the Special Master in his Report filed February 10th, 1958, are hereby adopted."

It has been demonstrated that the record in this case does not, and the facts do not, permit damages to be awarded except upon a reasonable royalty basis (Part I, above). Approached from this basis, as noted below, the record permits directions by this Court for the entry of a judgment based upon a reasonable royalty. Patent royalties are traditionally computed as a percentage of sales. There is no dispute as to Coleman sales, which were



\$7,635,062 [Finding XIII, R. 426]. The only thing remaining for this Court to determine, in order to make final disposition of this case, is what rate would represent a reasonable royalty.

**a. Possible Judgment Based on One Percent Royalty.**

As hereinbefore demonstrated on the facts of this case damages could be awarded only on a reasonable royalty basis (Part I). The only evidence as to what a reasonable royalty would be in this case, assuming that the Holly patent is deemed to have been of any value to Coleman, was introduced by Coleman. It was that in the heating industry a royalty of 1% for the license of a useful patent is a prevailing maximum. This evidence came from two sources:

(1) Licenses purchased and sold by Coleman were produced and described at length, and ranged from a maximum of 1% of net sales downward to various fractions of 1% [R. 1645-1652].

(2) The other source was Attorney John Swain of San Francisco, who had had extensive experience with the negotiation of patent license agreements, including those in the heating industry [R. 1779-1781]. He testified that he had formed the opinion that prevailing royalty rates in the heating industry were quite low [R. 1781], illustrating this conclusion with a particularly significant case in which a San Francisco client, having patents giving it a monopoly on a certain kind of wall heater, licensed the Westinghouse Electric Company for 1%, the license including the valuable privilege of access to the licensor's know-how and techniques [R. 1781-1783].

It is submitted that Holly was obliged to know that the fixing of a reasonable royalty was an important, and we believe the controlling, issue on the accounting trial. It also knew that the issue was being tried. However, Holly chose not to introduce any evidence as to the prevailing

rates of reasonable royalty in the industry. Neither did it offer expert evidence as to what a reasonable royalty would be on a wall heater appliance. Yet, being in the heating industry, it was unquestionably in a position to dispute Coleman's evidence if it considered it disputable. Thus the uncontradicted evidence established 1% as a maximum reasonable royalty. One percent of Coleman's total sales is \$76,350.62.

Such a determination would be in accord with the views of this Court that a conservative, factually-based approach should be taken in the calculation of a reasonable royalty. In *Dunkley Co. v. Central California Canneries*, 7 F. 2d 972, 977, at page 977 (9th Cir., 1925), this Court said:

"When the court is called upon to fix a royalty, it should be conservative in determining the amount. (Citation omitted.) The amount named should not be so high as to preclude the use of the patented machine."

The same view was recently reiterated by this Court in *Faulkner v. Gibbs*, 199 F. 2d 635, 639-640 (9th Cir., 1952).

On the facts of this case it is doubtful whether a licensee would in fact have been willing to pay \$76,350.62 for Coleman's inconsequential use of Holly's patent. But certainly no one would have paid more than that, and no reasonable licensor in Holly's position could have expected to find a licensee willing to pay such a price.

It is respectfully submitted, therefore, that an award of \$76,350.62, based upon a 1% royalty, is the maximum award which the record can sustain, and would represent more than adequate compensation for any loss which, upon any theory, Holly could be deemed to have incurred.

b. Possible Judgment Based on a Six Percent Royalty.

As hereinbefore pointed out, the Special Master's Finding II [Report of Special Master, R. 61] was that 6% of Coleman's sales would be a reasonable royalty, which finding the Trial Court adopted when, in its Finding XXIX [R. 432], it approved all of the Master's findings not inconsistent with its own. Therefore, presumably this Court might adopt the 6% royalty figure.

It is respectfully submitted, however, that to one familiar with the record of this case a judgment of \$458,103.72, which would represent a 6% royalty, for the supposed use of a leakage of infringing air which Coleman did not want, and which was actually of no use to it whatsoever, is manifestly excessive. No reasonable licensee would have paid \$458,103.72 for the use of Holly's patent on these facts, and we believe that merely to state the proposition exposes its absurdity. Nor would a reasonable patent owner have expected to find a person so profligate with his money. As noted hereinbefore, in order to attempt to justify this high figure it was necessary for the Special Master to assume that Coleman *should* have made the same rate of profit as Holly said it made upon its own sales [Report of Special Master, R. 51-52]. It has been demonstrated that Holly offered no proof that it made such a rate of profit on its wall heaters (Part I(3), above). But whatever Holly's profits might have been it is obvious that such an award would compensate it many times over for any conceivable loss. Before the Trial Court's judgment in this case, Coleman would have regarded an award based upon a 6% royalty as fantastic and as one imposing a heavy penalty. Without expressing disrespect for the

Trial Court, the fact is that in all matters involving these parties, both in this and the companion case, rulings have consistently been against Coleman. In these circumstances, rather than return to the Trial Court for further proceedings, Coleman would prefer to waive objection to a judgment based on a 6% royalty, if this were necessary to permit the litigation to be brought to an end in this Court.

c. Possible Judgment Based on Rule De Minimis.

It is respectfully submitted that this is actually a case to which the rule *de minimis* applies. Holly has failed to establish any actual damage. It has also failed to introduce any evidence concerning a reasonable royalty. A patent which has no value to a prospective licensee cannot in fact or in law command any royalty.

We have quoted above from the opinion of this Court in *Faulkner v. Gibbs, supra*, wherein it is said that in determining a reasonable royalty "it is permissible to show the value of what has been taken by the infringement by proving what would have been a reasonable royalty, *considering the nature of the invention, its utility and advantages, and the extent of the use involved.*" (Emphasis added.)

Breaking this down, and applying its elements to this case, it has been shown that "*the value of what has been taken* by the infringement" in this case was zero, the infringing air being mere leakage making no contribution to Coleman's heater (Part III(3), (5), above).

Its "*utility and advantages*" were likewise zero, and "*the extent of the use involved*" was nil if measured in terms of contribution to the heater, and insignificant when measured absolutely. Holly has neither sustained any actual damage nor yielded anything which had any value to Coleman.

When the patent owner fails to introduce any evidence upon which a reasonable royalty can be determined, and fails to prove actual damage, the rule *de minimis* is properly applied: *Rude v. Westcott*, 130 U. S. 152 (1889); *American Can Co. v. Goldee Mfg. Co.*, 31 F. 2d 492 (D. C. N. Y., 1927); See also *American Telephone & Telegraph Co. v. Radio Audion Co.*, 5 F. 2d 535-536 (D. Del., 1925).

### Conclusion.

It is respectfully submitted that the judgment in this case is based upon the erroneous theory that a patent owner is entitled to an award of lost sales without proving them. The damage issue was left entirely to speculation and conjecture, and it was assumed, without proof, that Holly would have made all of Coleman's sales but for the infringement. The evidence actually shows, to the contrary, that Holly could not possibly have made Coleman's sales during the infringement period any more than it did before or afterwards. The facts of the case did not permit such proof, and none was attempted. The amount awarded as supposed actual damages bears no relation to the facts and cannot be computed from any data in the record.

Holly chose not to introduce any evidence of reasonable royalty, and is dependent either upon Coleman's evidence on that issue or upon the finding of the Special Master as adopted by the Trial Court.

Coleman has been found in contempt without proof, or even evidence, that its modified device infringed the patent.

Penal damages and attorneys' fees have been assessed in a huge sum upon a record which supports no finding of improper motivation, but which affirmatively establishes good faith.



It is respectfully prayed that the judgment be reversed, and that this Court end the case by directing the entry of a reasonable judgment which can find support in the record.

Respectfully submitted,

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## APPENDIX.

### TABLE OF EXHIBITS (RULE 18)

Exhibits were received in three separate proceedings and are indexed below in three groups:

- I. Exhibits in Accounting Trial.
- II. Exhibits in Original Trial.
- III. Exhibits on Contempt Hearing.

#### I. Exhibits in Accounting Trial.

<u>Exhibit</u>	<u>Identification</u>	<u>Offered, or Marked for Identification</u>	<u>Received</u>	
1	R. 793-5	R. 794-5, 1082	R. 1084	
2	"	" "	"	
3	"	" "	"	
4	"	" "	"	
5	"	" "	"	
6	"	" "	"	
7	R. 963-4	R. 964, 1125	R. 1130	
8	R. 990-1	R. 991, 1125	"	
9	R. 999-1000	R. 1000, 1125	"	
10	R. 1000	" "	"	
11	"	"	"	
12	R. 1027	R. 1028	R. 1037	
13	R. 1028	"	"	
14	"	"	"	
15	"	"	"	
16	R. 1161	R. 1161, 1178	R. 1180	
17	"	" "	"	
18	R. 1167-8	R. 1168, 1178	"	
19	R. 1244-5	R. 1244-5	R. 1245	
20	R. 1311	R. 1311	R. 1343	(?)
21	R. 1311-2	R. 1312	R. 1343	
22	R. 1312	"	"	
23	"	"	"	
24	"	"	"	
25	"	"	"	
26	R. 1313	R. 1313	R. 1343	
27	"	"	"	
28	"	"	"	

<u>Exhibit</u>	<u>Identification</u>	<u>Offered, or Marked for Identification</u>	<u>Received</u>
29	R. 1313	R. 1313	R. 1343
30	R. 1313-1314	R. 1314	"
31	R. 1314	"	"
32	"	"	"
33	R. 1326-27	R. 1327	
34	R. 1328	R. 1329	"
35	R. 1333	R. 1333	"
36	R. 1341	R. 1341	"
37	R. 1394-95	R. 1395	R. 1458
38	R. 1395	R. 1395	"
39	R. 1395-96	R. 1396	"
40	R. 1396	"	"
41	"	"	"
42	"	"	"
43	R. 1397	R. 1397	"
44	R. 1658-59	R. 1659	R. 1663
45	R. 1688	R. 1688	R. 1689
46	R. 1758-59	R. 1759	R. 1766
47	R. 1768	R. 1768	R. 1768
48	R. 1805-6	R. 1805-6	R. 1806
49	R. 1806-7	R. 1806-7	R. 1807
A	R. 769-771	R. 771	R. 1081
B	R. 779-780	R. 780	R. 780
C	R. 906-7	R. 907	R. 1082
D	"	R. 908	"
E	"	"	"
F	"	"	"
G	"	"	"
H	"	"	"
I	"	"	"
J	R. 1062-63	R. 1063-1064	"
K	"	"	"
L	R. 1062-64	R. 1064	"
M	R. 1064-66	R. 1066	"
N	"	"	"
O	"	"	"
P	"	"	"
Q	"	"	"
R	R. 1266-71	R. 1267	R. 1291
S	R. 1274-79	R. 1279	"



<u>Exhibit</u>	<u>Identification</u>	<u>Offered, or Marked for Identification</u>	<u>Received</u>
T	R. 1359, 1358	R. 1359	
U	R. 1472	R. 1472	R. 1472
V	R. 1523-4	R. 1524-5	R. 1569
W	"	"	"
X	"	"	"
Y	R. 1572-73	R. 1573	
Z	"	"	
AA	R. 1597	R. 1597	R. 1598
BB	R. 1599	R. 1605	R. 1605
CC	R. 1615	R. 1615	R. 1615
DD	R. 1753	R. 1753	R. 1753
EE	R. 1756	R. 1756	R. 1756
FF	"	"	"

## II. Exhibits in Original Trial.

(Volumes I and II of the Transcript of Record identified as being "In Three Volumes" are reprints of part of the record on the original appeal. Volume III consists of exhibits and was not reprinted, by stipulation (R. 2019).)

<u>Exhibit</u>	<u>Identification</u>	<u>Offered, or Marked for Identification</u>	<u>Received</u>
1	Orig. R. 47	Orig. R. 47	Orig. R. 47
2	Orig. R. 47	Orig. R. 47	Orig. R. 47
3	Orig. R. 47-8	Orig. R. 47-8	Orig. R. 47
4	Orig. R. 203	Orig. R. 203	Orig. R. 204
5	Orig. R. 207-9	Orig. R. 209, 214-5	Orig. R. 215
6	Orig. R. 215-6	Orig. R. 215-6	Orig. R. 216
7	Orig. R. 216-7	Orig. R. 216-7	Orig. R. 218
8	Orig. R. 218	Orig. R. 218	Orig. R. 219
9	Orig. R. 274, 424		
10	Orig. R. 279	Orig. R. 279	Orig. R. 280
11	Orig. R. 280-1, 512-3	Orig. R. 281	Orig. R. 281
12	Orig. R. 281, 514-5	Orig. R. 281	Orig. R. 281
13	Orig. R. 367	Orig. R. 367	Orig. R. 369
14	Orig. R. 371-2	Orig. R. 372	Orig. R. 373
15	Orig. R. 423-4, 517	Orig. R. 423-4	Orig. R. 424
16	Orig. R. 423, 517-8	Orig. R. 423	Orig. R. 423
17	Orig. R. 48	Orig. R. 48	Orig. R. 48
18	Orig. R. 48, 519	Orig. R. 48	Orig. R. 49
19	Orig. R. 49, 525	Orig. R. 49	Orig. R. 49-50
20	Orig. R. 54	Orig. R. 54-5	Orig. R. 56
20-A	Orig. R. 55	Orig. R. 55	"
20-B	"	"	"
20-C	"	"	"
20-D	Orig. R. 55-56	Orig. R. 56	Orig. R. 56
21	Orig. R. 63-64	Orig. R. 64	Orig. R. 74
22	Orig. R. 72-73	Orig. R. 73	"
23	Orig. R. 74	Orig. R. 74	Orig. R. 114
24	Orig. R. 78	Orig. R. 78	Orig. R. 80
24-A	Orig. R. 80	Orig. R. 80	Orig. R. 80, 81
24-B	Orig. R. 81	Orig. R. 81	Orig. R. 81
24-C	Orig. R. 82	Orig. R. 82	Orig. R. 82
24-D	Orig. R. 83	Orig. R. 83	Orig. R. 83
25	Orig. R. 81	Orig. R. 81	Orig. R. 81
25-A	Orig. R. 82	Orig. R. 82	Orig. R. 82

<u>Exhibit</u>	<u>Identification</u>	<u>Offered, or Marked for Identification</u>	<u>Received</u>
25-B	Orig. R. 82	Orig. R. 82	Orig. R. 82
25-C	Orig. R. 83	Orig. R. 83	Orig. R. 83
25-D	Orig. R. 87	Orig. R. 87	Orig. R. 88
26	Orig. R. 88	Orig. R. 88-9	Orig. R. 89
27	Orig. R. 89-90	Orig. R. 90	Orig. R. 90
28	Orig. R. 90-91	Orig. R. 90-1	Orig. R. 91
29	Orig. R. 91	Orig. R. 91	Orig. R. 92
29-A	"	"	"
29-B	"	"	"
29-C	"	"	"
29-D	"	"	"
29-E	Orig. R. 91-92	Orig. R. 92	Orig. R. 93
30	Orig. R. 97, 526	Orig. R. 97	Orig. R. 98
31	Orig. R. 105, 527	Orig. R. 105	Orig. R. 105
32	Orig. R. 176	Orig. R. 176	Orig. R. 176
33	Orig. R. 187	Orig. R. 187-8	Orig. R. 188
34	Orig. R. 192	Orig. R. 192	Orig. R. 192
34-A	Orig. R. 430-1	Orig. R. 431	Orig. R. 432
35	Orig. R. 433, 535	Orig. R. 433	Orig. R. 435
36	"	Orig. R. 435	Orig. R. 436
37	Orig. R. 436-7, 536	Orig. R. 436	Orig. R. 437
38	Orig. R. 437	Orig. R. 437	Orig. R. 438
39	Orig. R. 438, 538	Orig. R. 438	"
40	Orig. R. 438, 439	"	"
41	Orig. R. 441	Orig. R. 442-3	Orig. R. 442-3
42	Orig. R. 444, 541	Orig. R. 444	Orig. R. 444
43	Orig. R. 446, 542	Orig. R. 446	Orig. R. 447
44	Orig. R. 450	Orig. R. 450, 451	Orig. R. 452
47	Orig. R. 487	Orig. R. 487	Orig. R. 491
A	Orig. R. 363	Orig. R. 363	Orig. R. 363
B	"	"	Orig. R. 363-4
C	Orig. R. 295, 296	Orig. R. 295	Orig. R. 295
D	"	"	"
E	"	"	"
F	"	"	"
G	"	"	"
H	"	"	"
I	Orig. R. 295, 297	"	"
J	"	"	"

<u>Exhibit</u>	<u>Identification</u>	<u>Offered, or Marked for Identification</u>	<u>Received</u>
K	Orig. R. 295-97	Orig. R. 295	Orig. R. 295
L	"	"	"
M	"	"	"
N	"	"	"
O	"	"	"
P	Orig. R. 295, 296	"	"
Q	Orig. R. 383, 543	Orig. R. 383	Orig. R. 383
R	"	Orig. R. 383	"
S	Orig. R. 49, 622	Orig. R. 49	Orig. R. 49
T	Orig. R. 144-5	Orig. R. 144	Orig. R. 146
U	Orig. R. 171	Orig. R. 171	Orig. R. 171
V	Orig. R. 270-1, 629	Orig. R. 270	Orig. R. 272
W	Orig. R. 289	Orig. R. 289	Orig. R. 294
X	Orig. R. 294	Orig. R. 295	Orig. R. 295
Y	Orig. R. 299, 734	Orig. R. 299	Orig. R. 300
Z	Orig. R. 302	Orig. R. 302	Orig. R. 316
AA	Orig. R. 310	Orig. R. 310	Orig. R. 316
AB	Orig. R. 311-2, 313	Orig. R. 316	"
AC	Orig. R. 317	Orig. R. 318	Orig. R. 318
AD	Orig. R. 318	Orig. R. 319	Orig. R. 319
AE	Orig. R. 319-320	Orig. R. 331	Orig. R. 331
AF	Orig. R. 322	"	"
AI	Orig. R. 323	Orig. R. 324	Orig. R. 324
AJ	Orig. R. 333	Orig. R. 333	Orig. R. 337
AK	Orig. R. 334	Orig. R. 335, 336-7	"
AL	Orig. R. 335-6	Orig. R. 336-7	Orig. R. 339
AM	Orig. R. 346	Orig. R. 346	Orig. R. 346
AN	Orig. R. 349	Orig. R. 349	Orig. R. 349
AO	Orig. R. 346-7	Orig. R. 347, 349	"
AP	Orig. R. 399	Orig. R. 399	Orig. R. 400
AQ	Orig. R. 404	Orig. R. 404	Orig. R. 404
AR	Orig. R. 405	Orig. R. 405	Orig. R. 405

### III. Exhibits on Contempt Hearing.

<u>Exhibit</u>	<u>Identification</u>	<u>Offered, or Marked for Identification</u>	<u>Received</u>
1	R. 451-2	R. 451-2	R. 452
2	R. 453	R. 453	R. 453
3	R. 454	R. 454-5	R. 455
4	R. 455	R. 455	"
5	R. 455-6	R. 456	R. 456
6	R. 460	R. 460	R. 460
7	R. 478	R. 478	
8-A	R. 480-1	R. 481	R. 483
8-B	"	"	"
8-C	"	"	"
8-D	"	"	"
8-E	"	"	"
9	R. 482	R. 482	R. 484
10	R. 520	R. 520	R. 520
11	"	"	"
12	R. 521	R. 521	R. 521
13	R. 526-7	R. 526	R. 527
14	R. 652	R. 651-2	R. 652
15	R. 653	"	"
16	R. 686	R. 686	R. 686
A	R. 462-3	R. 463	R. 463
B	R. 500	R. 500	R. 500
C	R. 500-1	R. 501	R. 501
D	R. 501	"	"
E	R. 505	R. 505	R. 505
F	R. 560-1	R. 560	R. 561
G	R. 570-1	R. 571	R. 571
H	R. 584	R. 584	R. 584
I	R. 584-5	"	R. 585



